



**Govan Mbeki Municipality  
Annual Financial Statements  
for the year ended 30 June 2018**

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## General Information

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Legal form of entity	Municipality
<b>Mayoral committee</b>	
Executive Mayor	Ngxonono YT
Chief Whip	Mtshali PD
Speaker	Zuma NG
MPAC Chairperson	Gwiji CV
Members of Mayoral Committee	Makhaye SA Mahlangu BS Nkosi NE Ndaba BB Nhlapo ND Zulu NN
Ward councillors	GR Botha C Chamberlain M Denny T Fourie ME Lukhele I Makola MB Mahlangu BD Mahlangu ED Mahlangu NP Mazibuko KD Mbokazi AV Mbonani LM Mnisi TR Mokoena BD Morajane TA Motloun ME Mtsweni MJ Ndoda NM NG Malaza Nkabinde ER Nkosi MJ Ntuli SR Sibanyoni SI Sithole LE Swart EP Thabethe IM van Rooyen EJ Vilakazi EA Zulu TS

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## General Information

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<b>Proportional Representative Councillors</b>	Badenhorst HJ De Vries GR Dube TH Hlolweni S Klaas N Mabizela TM Maseko TM Masina NA Masuku PIP Mathebula SB Mkhaliphi S Mkhwebane ZA Mofokeng TS Moloto BD Mosomane MI Ndwanyaza PN Nel-Buitendag AD Njinga SC Nkabinde JB Ntsibande ME Sebolela JD Shai KJ van Huyssteen NC von Widdern DC
<b>Grading of local authority</b>	B4
<b>Capacity of local authority</b>	High
<b>Dermacation code</b>	MP 307
<b>Chief Finance Officer (CFO)</b>	Sithole BB
<b>Accounting Officer</b>	Mndebele SF
<b>Registered office</b>	Central Business Area Horwood Street Secunda 2302
<b>Business address</b>	Horwood Street Secunda 2302
<b>Postal address</b>	Private bag X1017 Secunda 2302
<b>Bankers</b>	Standard Bank
<b>Auditors</b>	Auditor General South Africa
<b>Attorneys</b>	Cronje De Waal & Skhosana attorneys TMN Kgomo Attorney's Mthimunya' Attorneys Sipeto Mduba Attorneys Tau Phalane Inc

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

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The reports and statements set out below comprise the annual financial statements presented to the council::

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COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant

# **Govan Mbeki Municipality**

Annual Financial Statements for the year ended 30 June 2018

## **Accounting Officer's Responsibilities and Approval**

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I, SF Mndebele, accounting officer of the Govan Mbeki Municipality, am responsible for the preparation of the annual financial statements, which are set out on pages 5 to 84 in terms of section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the municipality.

The annual financial statements have been prepared in accordance with Generally Recognised Accounting Practices (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

Our opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements

The municipality's cash flow forecast for the year beginning 1 July 2017 to 30 June 2018 and, in the light of this review and the current financial position and revenue enhancement activities the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The Accounting officer certify that the salaries, allowance and benefits of councilors as disclosed in the note of these Annual Financial Statement are within the upper limit of the framework envisaged in section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act, Act No.20 of 1998.

The annual financial statements set out on pages 5 to 83, which have been prepared on the going concern basis, were approved by the accounting officer on 2 October 2018.

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**Mndebele SF**  
**Municipal Manager**

# **Govan Mbeki Municipality**

Annual Financial Statements for the year ended 30 June 2018

## **Accounting Officer's Report**

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The accounting officer submits his report for the year ended 30 June 2018.

### **1. Review of activities**

#### **Main business and operations**

Net deficit of the municipality was R 105 997 368 (2017: deficit R 608 182 526 restated).

### **2. Going concern**

We draw attention to the fact that at 30 June 2018, the municipality had an accumulated surplus (deficit) of R 2 010 900 511 and that the municipality's total liabilities exceed its assets by R 2 010 900 511.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### **3. Subsequent events**

The accounting officer is not aware of circumstances arising since the end of the financial year.

### **4. Public Private Partnership**

The municipality did not have any public private partnerships as at end of reporting period.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Statement of Financial Position as at 30 June 2018

Figures in Rand	Note(s)	2018	2017 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	9	9 909 119	8 495 845
Receivables from exchange transactions	10	1 935 135	1 492 388
Receivables from non-exchange transactions	11	83 992 991	45 686 238
VAT receivable		142 477 586	-
Consumer debtors	12	266 758 272	192 626 534
Long term receivables	8	1 263 786	628 101
Cash and cash equivalents	13	-	39 386 773
		<b>506 336 889</b>	<b>288 315 879</b>
<b>Non-Current Assets</b>			
Investment property	2	947 088 842	963 285 289
Property, plant and equipment	3	1 878 462 498	1 986 203 612
Intangible assets	4	1 793 103	2 086 172
Heritage assets	5	5 425 337	5 428 407
Other financial assets	6	11 633 045	10 984 716
Long term receivables	8	3 068 817	3 081 895
		<b>2 847 471 642</b>	<b>2 971 070 091</b>
<b>Total Assets</b>		<b>3 353 808 531</b>	<b>3 259 385 970</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Other financial liabilities	16	1 784 782	1 585 291
Finance lease obligation	14	480 804	2 602 656
Payables from exchange transactions	19	877 289 887	903 611 920
Taxes and transfers payable (non-exchange)	20	17 244 717	4 041 128
VAT payable		-	24 557 750
Consumer deposits	21	24 248 057	23 124 103
Employee benefit obligation	7	1 517 000	1 115 000
Unspent conditional grants and receipts	15	33 229 708	17 807 382
Provisions for Landfill site	17	2 852 375	2 610 672
Long service award liability	18	2 241 007	2 277 000
Bank overdraft	13	109 283 688	-
		<b>1 070 172 025</b>	<b>983 332 902</b>
<b>Non-Current Liabilities</b>			
Other financial liabilities	16	111 792 737	4 612 275
Finance lease obligation	14	-	480 804
Employee benefit obligation	7	54 963 864	48 361 864
Provisions for Landfill site	17	82 293 151	81 333 759
Long service award liability	18	23 686 243	24 363 000
		<b>272 735 995</b>	<b>159 151 702</b>
<b>Total Liabilities</b>		<b>1 342 908 020</b>	<b>1 142 484 604</b>
<b>Net Assets</b>		<b>2 010 900 511</b>	<b>2 116 901 366</b>
Accumulated surplus		<b>2 010 900 511</b>	<b>2 116 901 366</b>

\* See Note 45

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Statement of Financial Performance for the year ended 30 June 2018

Figures in Rand	Note(s)	2018	2017 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	23	1 122 050 512	1 022 655 262
Rental of facilities and equipment		1 577 819	4 100 433
Interest received on outstanding debtors		41 597 307	44 537 487
Income from agency fees		-	23 730 891
Incidental income		13 309 558	12 842 950
Administration and management fees received		-	3 139 518
Fees earned		1 599 893	5 000 739
Other income	24	-	2 252 494
Interest received	25	2 205 023	1 538 588
Gain on employee benefit obligations		-	4 677 000
Fair value adjustments	38	725 000	93 047 597
Dividends received	25	-	26 668
<b>Total revenue from exchange transactions</b>		<b>1 183 065 112</b>	<b>1 217 549 627</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	26	268 900 115	244 214 874
<b>Transfer revenue</b>			
Government grants & subsidies	28	293 386 666	284 799 984
Fines		10 851 142	15 085 912
Insurance claims		14 440 988	542 371
<b>Total revenue from non-exchange transactions</b>		<b>587 578 911</b>	<b>544 643 141</b>
<b>Total revenue</b>	22	<b>1 770 644 023</b>	<b>1 762 192 768</b>
<b>Expenditure</b>			
Employee related costs	29	(363 369 801)	(442 877 792)
Remuneration of councillors	30	(16 172 374)	(20 574 230)
Depreciation and amortisation	31	(152 735 477)	(159 311 612)
Impairment of assets	32	(218 024)	(8 644 861)
Finance costs	33	(92 620 220)	(42 636 171)
Debt Impairment	34	(209 064 564)	(227 097 345)
Collection costs		(1 328 340)	(2 975 046)
Bulk purchases	35	(820 606 852)	(817 286 667)
Contracted services	36	(81 058 056)	(85 624 233)
Grants and subsidies paid	27	(2 986 242)	(33 161 350)
Loss on assets and liabilities		(18 355 451)	(319 571 803)
Actuarial losses		(2 907 625)	-
General expenses	37	(115 218 365)	(210 614 184)
<b>Total expenditure</b>		<b>(1 876 641 391)</b>	<b>(2 370 375 294)</b>
<b>Deficit for the year</b>		<b>(105 997 368)</b>	<b>(608 182 526)</b>

\* See Note 45



# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	2 722 138 800	2 722 138 800
Adjustments		
Correction of errors	2 945 092	2 945 092
<b>Balance at 01 July 2016 as restated*</b>	<b>2 725 083 892</b>	<b>2 725 083 892</b>
Changes in net assets		
Deficit for the year	(608 182 526)	(608 182 526)
Total changes	(608 182 526)	(608 182 526)
Opening balance as previously reported	2 090 162 095	2 090 162 095
Adjustments		
Correction of errors	26 735 784	26 735 784
<b>Restated* Balance at 01 July 2017 as restated*</b>	<b>2 116 897 879</b>	<b>2 116 897 879</b>
Changes in net assets		
Deficit for the year	(105 997 368)	(105 997 368)
Total changes	(105 997 368)	(105 997 368)
<b>Balance at 30 June 2018</b>	<b>2 010 900 511</b>	<b>2 010 900 511</b>
Note(s)		

\* See Note 45

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Cash Flow Statement for the year ended 30 June 2018

Figures in Rand	Note(s)	2018	2017 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Service charges & Property rates		1 147 863 399	1 085 882 361
Grants		307 166 433	282 185 349
Interest income		-	1 538 588
Dividends received		2 205 023	26 668
Other receipts		4 109 724	41 302 799
Fines		932 282	2 600 444
		<u>1 462 276 861</u>	<u>1 413 536 209</u>
<b>Payments</b>			
Employee costs		(379 542 175)	(460 541 049)
Suppliers		(1 199 198 365)	(834 545 138)
Finance costs		(92 620 220)	(33 166 173)
		<u>(1 671 360 760)</u>	<u>(1 328 252 360)</u>
<b>Net cash flows from operating activities</b>	40	<b><u>(209 083 899)</u></b>	<b><u>85 283 849</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	3	(51 864 368)	(59 631 653)
Proceeds from sale of property, plant and equipment	3	-	1 663 083
Proceeds on sale of property, plant and equipment	2	-	2 457 450
Proceeds from sale of investment property	2	6 236 606	-
Purchase of intangible assets	4	(3 400)	(420 417)
Movement in investments		(648 329)	(739 170)
		<u>(46 279 491)</u>	<u>(56 670 707)</u>
<b>Net cash flows from investing activities</b>		<b><u>(46 279 491)</u></b>	<b><u>(56 670 707)</u></b>
<b>Cash flows from financing activities</b>			
Movement in consumer deposits		1 123 954	472 806
Movement in loans		107 379 953	(1 452 338)
Finance lease payments		(1 810 978)	(3 237 064)
		<u>106 692 929</u>	<u>(4 216 596)</u>
<b>Net cash flows from financing activities</b>		<b><u>106 692 929</u></b>	<b><u>(4 216 596)</u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(148 670 461)</b>	<b>24 396 546</b>
Cash and cash equivalents at the beginning of the year		39 386 773	14 990 227
<b>Cash and cash equivalents at the end of the year</b>	13	<b><u>(109 283 688)</u></b>	<b><u>39 386 773</u></b>

\* See Note 45

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	963 486 013	-	<b>963 486 013</b>	1 122 050 512	<b>158 564 499</b>	
Rental of facilities and equipment	4 117 275	-	<b>4 117 275</b>	1 577 819	<b>(2 539 456)</b>	
Interest on outstanding debtors	43 519 491	-	<b>43 519 491</b>	41 597 307	<b>(1 922 184)</b>	
Licences and permits	36 026 522	-	<b>36 026 522</b>	-	<b>(36 026 522)</b>	
Miscellaneous other revenue	952 072	-	<b>952 072</b>	13 309 558	<b>12 357 486</b>	
Administration and management fees	2 548	-	<b>2 548</b>	-	<b>(2 548)</b>	
Fees earned	21 652 021	-	<b>21 652 021</b>	1 599 893	<b>(20 052 128)</b>	
Discount received	158 567	-	<b>158 567</b>	-	<b>(158 567)</b>	
Other income	1 360 371	-	<b>1 360 371</b>	-	<b>(1 360 371)</b>	
Interest received - investment	3 458 191	-	<b>3 458 191</b>	2 205 023	<b>(1 253 168)</b>	
<b>Total revenue from exchange transactions</b>	<b>1 074 733 071</b>	<b>-</b>	<b>1 074 733 071</b>	<b>1 182 340 112</b>	<b>107 607 041</b>	
<b>Revenue from non-exchange transactions</b>						
Property rates	266 065 863	-	<b>266 065 863</b>	268 900 115	<b>2 834 252</b>	
Government grants & subsidies	319 921 000	-	<b>319 921 000</b>	293 386 666	<b>(26 534 334)</b>	
Fines	30 004 122	-	<b>30 004 122</b>	10 851 142	<b>(19 152 980)</b>	
Insurance Claims	3 824	-	<b>3 824</b>	14 440 988	<b>14 437 164</b>	
<b>Total revenue from non-exchange transactions</b>	<b>615 994 809</b>	<b>-</b>	<b>615 994 809</b>	<b>587 578 911</b>	<b>(28 415 898)</b>	
<b>Total revenue</b>	<b>1 690 727 880</b>	<b>-</b>	<b>1 690 727 880</b>	<b>1 769 919 023</b>	<b>79 191 143</b>	
<b>Expenditure</b>	<b>(1 616 266 706)</b>	<b>1 616 266 706</b>		<b>-(1 855 378 315)</b>	<b>(1 855 378 315)</b>	
<b>Operating deficit</b>	<b>74 461 174</b>	<b>1 616 266 706</b>	<b>1 690 727 880</b>	<b>(85 459 292)</b>	<b>(1 776 187 172)</b>	

## Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

### Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Loss on disposal of assets	30 000 000	(30 000 000)	-	(18 355 451)	<b>(18 355 451)</b>	
Fair value adjustments	-	-	-	725 000	<b>725 000</b>	
Actuarial gains/losses	-	-	-	(2 907 625)	<b>(2 907 625)</b>	
	<b>30 000 000</b>	<b>(30 000 000)</b>	<b>-</b>	<b>(20 538 076)</b>	<b>(20 538 076)</b>	
<b>Deficit for the year</b>	<b>104 461 174</b>	<b>1 586 266 706</b>	<b>1 690 727 880</b>	<b>(105 997 368)</b>	<b>(1 796 725 248)</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>104 461 174</b>	<b>1 586 266 706</b>	<b>1 690 727 880</b>	<b>(105 997 368)</b>	<b>(1 796 725 248)</b>	

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Inventories	9 271 000	-	<b>9 271 000</b>	9 909 119	<b>638 119</b>	
Receivables from exchange	-	-	-	1 935 135	<b>1 935 135</b>	
Receivables from non-exchange transactions	38 238 000	-	<b>38 238 000</b>	83 992 991	<b>45 754 991</b>	
VAT receivable	-	-	-	265 082 745	<b>265 082 745</b>	
Consumer debtors	228 735 000	-	<b>228 735 000</b>	266 758 272	<b>38 023 272</b>	
Long term receivables	-	-	-	1 263 786	<b>1 263 786</b>	
Cash and cash equivalents	121 601 000	-	<b>121 601 000</b>	473 974 422	<b>352 373 422</b>	
	<b>397 845 000</b>	-	<b>397 845 000</b>	<b>1 102 916 470</b>	<b>705 071 470</b>	
<b>Non-Current Assets</b>						
Investment property	1 281 850 000	-	<b>1 281 850 000</b>	947 088 842	<b>(334 761 158)</b>	
Property, plant and equipment	2 229 519 593	-	<b>2 229 519 593</b>	1 878 462 498	<b>(351 057 095)</b>	
Intangible assets	3 658 000	-	<b>3 658 000</b>	1 793 103	<b>(1 864 897)</b>	
Heritage assets	5 428 407	-	<b>5 428 407</b>	5 425 337	<b>(3 070)</b>	
Other financial assets	11 611 000	-	<b>11 611 000</b>	11 633 045	<b>22 045</b>	
Long term receivables	26 319 000	-	<b>26 319 000</b>	3 068 817	<b>(23 250 183)</b>	
	<b>3 558 386 000</b>	-	<b>3 558 386 000</b>	<b>2 847 471 642</b>	<b>(710 914 358)</b>	
<b>Total Assets</b>	<b>3 956 231 000</b>	-	<b>3 956 231 000</b>	<b>3 950 388 112</b>	<b>(5 842 888)</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Other financial liabilities	4 037 000	-	<b>4 037 000</b>	1 784 782	<b>(2 252 218)</b>	
Finance lease obligation	-	-	-	480 804	<b>480 804</b>	
Payables from exchange transactions	325 871 000	-	<b>325 871 000</b>	877 289 887	<b>551 418 887</b>	
Payables from non-exchange	-	-	-	17 244 717	<b>17 244 717</b>	

## Annual Financial Statements for the year ended 30 June 2018

### Budget on Cash Basis

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# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>2018</b>											
<b>Financial Performance</b>											
Property rates	266 065 863	-	266 065 863	-		266 065 863	268 900 115		2 834 252	101 %	101 %
Service charges	963 486 013	-	963 486 013	-		963 486 013	1 122 050 512		158 564 499	116 %	116 %
Investment revenue	3 458 191	-	3 458 191	-		3 458 191	2 205 023		(1 253 168)	64 %	64 %
Transfers recognised - operational	247 125 000	-	247 125 000	-		247 125 000	246 837 867		(287 133)	100 %	100 %
Other own revenue	167 796 854	-	167 796 854	-		167 796 854	89 456 347		(78 340 507)	53 %	53 %
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>1 647 931 921</b>	<b>-</b>	<b>1 647 931 921</b>	<b>-</b>		<b>1 647 931 921</b>	<b>1 729 449 864</b>		<b>81 517 943</b>	<b>105 %</b>	<b>105 %</b>
Employee costs	(474 979 036)	-	(474 979 036)	-	-	(474 979 036)	(363 369 801)	-	111 609 235	77 %	77 %
Remuneration of councillors	(22 546 712)	-	(22 546 712)	-	-	(22 546 712)	(16 172 374)	-	6 374 338	72 %	72 %
Debt impairment	(85 871 159)	-	(85 871 159)			(85 871 159)	(209 064 564)	-	(123 193 405)	243 %	243 %
Depreciation and asset impairment	(162 164 992)	-	(162 164 992)			(162 164 992)	(152 953 501)	-	9 211 491	94 %	94 %
Finance charges	(3 429 562)	-	(3 429 562)	-	-	(3 429 562)	(92 620 220)	-	(89 190 658)	2 701 %	2 701 %
Materials and bulk purchases	(670 000 000)	-	(670 000 000)	-	-	(670 000 000)	(820 606 852)	-	(150 606 852)	122 %	122 %
Transfers and grants	-	-	-	-	-	-	(2 986 242)	-	(2 986 242)	DIV/0 %	DIV/0 %
Other expenditure	(197 275 245)	-	(197 275 245)	-	-	(197 275 245)	(224 222 477)	-	(26 947 232)	114 %	114 %
<b>Total expenditure</b>	<b>(1 616 266 706)</b>	<b>-</b>	<b>(1 616 266 706)</b>	<b>-</b>	<b>-</b>	<b>(1 616 266 706)</b>	<b>(1 881 996 031)</b>	<b>-</b>	<b>(265 729 325)</b>	<b>116 %</b>	<b>116 %</b>
<b>Surplus/(Deficit)</b>	<b>31 665 215</b>	<b>-</b>	<b>31 665 215</b>	<b>-</b>		<b>31 665 215</b>	<b>(152 546 167)</b>		<b>(184 211 382)</b>	<b>(482)%</b>	<b>(482)%</b>

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	72 796 000	-	72 796 000	-		72 796 000	46 548 799		(26 247 201)	64 %	64 %
<b>Surplus (Deficit) after capital transfers and contributions</b>	<b>104 461 215</b>	<b>-</b>	<b>104 461 215</b>	<b>-</b>		<b>104 461 215</b>	<b>(105 997 368)</b>		<b>(210 458 583)</b>	<b>(101)%</b>	<b>(101)%</b>
<b>Surplus/(Deficit) for the year</b>	<b>104 461 215</b>	<b>-</b>	<b>104 461 215</b>	<b>-</b>		<b>104 461 215</b>	<b>(105 997 368)</b>		<b>(210 458 583)</b>	<b>(101)%</b>	<b>(101)%</b>
<b>Capital expenditure and funds sources</b>											
Total capital expenditure	104 396 000	-	104 396 000	-		104 396 000	48 686 000		(55 710 000)	47 %	47 %
<b>Sources of capital funds</b>											
Transfers recognised - capital	72 796 000	-	72 796 000	-		72 796 000	44 066 000		(28 730 000)	61 %	61 %
Internally generated funds	31 600 000	-	31 600 000	-		31 600 000	4 620 000		(26 980 000)	15 %	15 %
<b>Total sources of capital funds</b>	<b>104 396 000</b>	<b>-</b>	<b>104 396 000</b>	<b>-</b>		<b>104 396 000</b>	<b>48 686 000</b>		<b>(55 710 000)</b>	<b>47 %</b>	<b>47 %</b>



# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>Cash flows</b>											
Net cash from (used) operating	181 948 000	-	181 948 000	-		181 948 000	(209 083 899)		(391 031 899)	(115)%	(115)%
Net cash from (used) investing	(79 396 000)	-	(79 396 000)	-		(79 396 000)	(46 279 491)		33 116 509	58 %	58 %
Net cash from (used) financing	(2 225 000)	-	(2 225 000)	-		(2 225 000)	106 692 929		108 917 929	(4 795)%	(4 795)%
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>100 327 000</b>	<b>-</b>	<b>100 327 000</b>	<b>-</b>		<b>100 327 000</b>	<b>(148 670 461)</b>		<b>(248 997 461)</b>	<b>(148)%</b>	<b>(148)%</b>
Cash and cash equivalents at the beginning of the year	21 274 000	-	21 274 000	-		21 274 000	39 386 773		18 112 773	185 %	185 %
<b>Cash and cash equivalents at year end</b>	<b>121 601 000</b>	<b>-</b>	<b>121 601 000</b>	<b>-</b>		<b>121 601 000</b>	<b>(109 283 688)</b>		<b>230 884 688</b>	<b>(90)%</b>	<b>(90)%</b>

The accounting policies on pages 17 to 42 and the notes on pages 43 to 83 form an integral part of the annual financial statements.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

#### 1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

#### 1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

##### Trade and other receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables calculated on risk basis taking into account the number cut-offs, handed over status, indigent and payment ratio of each consumer debtor. The amount of loss is measured as the difference between the consumer debtor carrying amount and the estimated future cash flows.

##### Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of service potential expected to be realized from distribution or use.

##### Fair value estimation

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

##### Impairment testing

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In making the above mentioned estimates and judgement, management considers the subsequent measurement criteria and indicators of potential impairment losses as set out in GRAP 17 (Property, Plant and Equipment), GRAP 12 (Inventory), GRAP 31 (Intangible Assets), GRAP 26 (Impairment of cash generating assets) and GRAP 21 (Impairment of Non Cash Generating Assets). In particular, the calculation of the recoverable service amount for property, plant and equipment and intangible assets and the net realisable value for inventories involves significant judgement by management.

##### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - Provisions.

##### Useful lives of property, plant and equipment

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

## Accounting Policies

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### 1.2 Significant judgements and sources of estimation uncertainty (continued)

#### Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 7.

#### Effective interest rate

The municipality use the government bond rate to discount future cash flows.

#### Allowance for debt impairment

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

### 1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.3 Investment property (continued)

#### Fair value

Subsequent to initial measurement investment property is measured at fair value of investment property reflecting market conditions at the valuation roll period of the municipality and annually updated with amendments of supplementary valuation roll.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal

The gain or loss arising from the derecognition of investment property is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the investment property. Such difference is recognised in surplus or deficit when the investment property is derecognised.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

### 1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost at acquisition date or in the case of donated assets or assets acquired by grant, the deemed cost being the fair value of the asset on initial recognition.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary cost of dismantling and removing the asset and restoring the site in which it is located.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

### 1.4 Property, plant and equipment (continued)

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses. Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the municipality and cost or fair value of the subsequent expenditure can be reliably measured. Expenditure incurred is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces major parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Buildings	Straight line	30 years
Landfill site	Straight line	24 years
Infrastructure	Straight line	10-30 years
Community	Straight line	15-30 years
Other property, plant and equipment	Straight line	3-15 years

The municipality shall assess at each reporting date whether there is any indication that the expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the entity shall revise the expected useful life and/or residual value accordingly.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

### 1.5 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the municipality intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

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Item	Depreciation method	Average useful life
Computer software	Straight line	5 years

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Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.6 Intangible assets (continued)

The gain or loss arising from the disposal of an intangible assets is determined as the difference between the net disposal proceeds, if any, and carrying amount of the intangible asset. Such difference is recognised in surplus or deficit when the asset is derecognised.

### 1.7 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

#### Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

#### Initial measurement

Heritage assets Heritage assets that qualifies for recognition as an asset shall be measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

#### Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

#### Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

#### Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

#### Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the disposal of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the item is derecognised

### 1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one municipality and a financial liability or a residual interest of another municipality.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

## Accounting Policies

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### 1.8 Financial instruments (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the municipality shall estimate cash flows considering all contractual terms of the financial instrument but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument or group of financial instruments, the municipality shall use the contractual cash flows over the full contractual term of the financial instrument or group of financial instruments.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another municipality; or
- a contractual right to:
  - receive cash or another financial asset from another municipality; or
  - exchange financial assets or financial liabilities with another municipality under conditions that are potentially favourable to the municipality.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another municipality; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the municipality had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the municipality designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.



# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.8 Financial instruments (continued)

#### Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Consumer receivables	Financial asset measured at amortised cost
Cash and cash equivalent	Financial asset measured at amortised cost
Long term receivables	Financial asset measured at amortised cost
Other receivables from exchange transactions	Financial asset measured at amortised cost
Other receivables from non-exchange transactions	Financial asset measured at amortised cost
Other financial assets	Financial asset measured at fair value

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Payables from non-exchange transactions	Financial liability measured at amortised cost
Other financial liabilities (loan)	Financial liability measured at amortised cost
Value Added Tax	Financial liability measured at amortised cost
Finance Lease Liability	Financial liability measured at amortised cost

#### Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

#### Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality measures a financial asset and financial liability initially at its fair value.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.8 Financial instruments (continued)

#### Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility in the case of a financial asset.

#### Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

#### Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

#### Impairment and uncollectibility of financial assets

The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

## Accounting Policies

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### 1.8 Financial instruments (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such financial assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

### Derecognition

#### Financial assets

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

#### Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

### 1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. Title may or may not eventually be transferred. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

## Accounting Policies

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### 1.9 Leases (continued)

#### Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

#### Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

#### Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term.

Any contingent rents are recognised separately as an expense in the period in which they are incurred.

### 1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.10 Inventories (continued)

#### Water inventory

Water is regarded as inventory when the municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes, etc). However, water in dams, that are filled by natural resources and that has not yet been treated, that is under the control of the municipality but cannot be measured reliably as there is no cost attached to the water, is therefore not recognised in the statement of financial position.

The basis of determining the cost of water purchased and not yet sold at reporting date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location and condition, net of trade discounts and rebates.

Water and purified effluent are valued by using the first-in-first-out method, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

#### Other arrangements

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values and sold by public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Differences arising on the valuation of inventory are recognised in the statement of financial performance in the year in which they arise. The amount of any reversal of any write down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

### 1.11 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity. It generates a commercial return.

#### Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

#### Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

#### Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

## Accounting Policies

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### 1.11 Impairment of cash-generating assets (continued)

#### Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs.

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

## Accounting Policies

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### 1.11 Impairment of cash-generating assets (continued)

#### Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

### 1.12 Impairment of non-cash-generating assets

#### Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.12 Impairment of non-cash-generating assets (continued)

#### Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

#### Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

#### Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value, on a systematic basis over its remaining useful life.

#### Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

### 1.13 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

Termination benefits are employee benefits payable as a result of either:

- a entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.



# Govan Mbeki Municipality

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## Accounting Policies

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### 1.13 Employee benefits (continued)

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

#### Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the municipality during a reporting period, the municipality recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the municipality has no realistic alternative but to make the payments.

#### Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

## Accounting Policies

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### 1.13 Employee benefits (continued)

#### Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.13 Employee benefits (continued)

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, the entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, the entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
  - those changes were enacted before the reporting date; or
  - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

### 1.14 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.14 Provisions and contingencies (continued)

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when the municipality:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability is:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality; or
- a present obligation that arises from past events but is not recognised because:
  - it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;
  - the amount of the obligation cannot be measured with sufficient reliability

Contingent assets and contingent liabilities are not recognised however disclosed in the notes of the financial statements. Contingencies are disclosed in note 42.

## Accounting Policies

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### 1.14 Provisions and contingencies (continued)

#### Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.11 and 1.12.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

### 1.15 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Commitments are not recognised in the statement of financial position as a liability, but are included in the disclosure notes in the following cases:

- approved and contracted commitments;
- where the expenditure has been approved and the contract has been awarded at the reporting date; and
- where disclosure is required by a specific standard of GRAP.

### 1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

## Accounting Policies

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### 1.16 Revenue from exchange transactions (continued)

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Rendering of services by the municipality includes, but not limited to income from agency fees, rentals, incidental income and other income.

#### Interest and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Dividends or their equivalents are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

### 1.17 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

## Accounting Policies

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### 1.17 Revenue from non-exchange transactions (continued)

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

#### Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

#### Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.17 Revenue from non-exchange transactions (continued)

#### Rates including collection charges and penalties

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

#### Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

#### Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

#### Grants

Revenue received from conditional grants, donations and funding is recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Unconditional grants and receipts are recognised upon receipt.

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality, and the fair value of the assets can be measured reliably.

#### Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.



## Accounting Policies

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### 1.18 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset when it is probable that they will result in future economic benefits or service potential to the municipality, and the costs can be measured reliably. The municipality applies this consistently to all borrowing costs that are directly attributable to the acquisition, construction, or production of all qualifying assets of the municipality. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value or replacement cost, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets and Inventories as per accounting policy number 1.10, 1.11 and 1.12. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation is suspended during extended periods in which active development is suspended.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the municipality ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.19 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### 1.20 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.22 Irregular expenditure

Irregular expenditure is expenditure incurred that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.22 Irregular expenditure (continued)

All expenditure relating to irregular expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.23 Segment information

A segment is an activity of an entity:

- that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);
- whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and
- for which separate financial information is available.

Reportable segments are the actual segments which are reported on in the segment report. They are the segments identified above or alternatively an aggregation of two or more of those segments where the aggregation criteria are met.

#### Measurement

The amount of each segment item reported is the measure reported to management for the purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations made in preparing the entity's financial statements and allocations of revenues and expenses are included in determining reported segment surplus or deficit only if they are included in the measure of the segment's surplus or deficit that is used by management. Similarly, only those assets and liabilities that are included in the measures of the segment's assets and segment's liabilities that are used by management are reported for that segment. If amounts are allocated to reported segment surplus or deficit, assets or liabilities, those amounts are allocated on a reasonable basis.

If management uses only one measure of a segment's surplus or deficit, the segment's assets or the segment's liabilities in assessing segment performance and deciding how to allocate resources, segment surplus or deficit, assets and liabilities are reported in terms of that measure. If management uses more than one measure of a segment's surplus or deficit, the segment's assets or the segment's liabilities, the reported measures are those that management believes are determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in the entity's financial statements.

### 1.24 Budget information

The approved budget is prepared on a accrual basis and presented by programmes linked to performance outcome objectives.

The approved budget covers the fiscal period from 2017/07/01 to 2018/06/30.

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

### 1.25 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.25 Related parties (continued)

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

### 1.26 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements for the year ended 30 June 2018

Figures in Rand 2018 2017

### 2. Investment property

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	947 088 842	-	947 088 842	963 285 289	-	963 285 289

#### Reconciliation of investment property - 2018

	Opening balance	Disposals	Fair value adjustments	Total
Investment property	963 285 289	(16 921 447)	725 000	947 088 842

#### Reconciliation of investment property - 2017

	Opening balance	Additions	Disposals	Fair value adjustments	Total
Investment property	1 211 182 828	30 800 000	(371 762 000)	93 064 461	963 285 289

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

#### Details of valuation

The effective date of the revaluations was 1 July 2016, the next valuation period will be 1 July 2020. Revaluations were performed by an independent valuer from Lutendo Property Group, the valuer is qualified and registered as a Professional Valuer with the institute of the South African Council for Property Valuers Profession. Lutendo Property Group valuation services is not connected to the municipality and have experience in location and category of the investment property being valued.

Investment property was fair valued and changes on the market value increased the fair value by R 725 000 as a result of supplementary valuations. The municipality sold property to the value of R16 million in the year under review.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements for the year ended 30 June 2018

Figures in Rand

### 3. Property, plant and equipment

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	428 583 567	-	428 583 567	428 949 830	-	428 949 830
Buildings	916 810 879	(655 963 270)	260 847 609	920 043 762	(632 771 531)	287 272 231
Infrastructure	4 506 657 150	(3 539 155 059)	967 502 091	4 500 223 576	(3 421 893 017)	1 078 330 559
Assets under construction	161 797 642	-	161 797 642	122 164 553	-	122 164 553
Landfill site	176 455 392	(144 987 594)	31 467 798	178 562 234	(141 936 848)	36 625 386
Leased movable assets	5 982 631	(5 819 273)	163 358	5 879 435	(3 736 307)	2 143 128
Other property, plant and equipment	141 475 542	(113 888 884)	27 586 658	131 801 453	(102 130 514)	29 670 939
Library books	2 787 666	(2 273 891)	513 775	4 689 193	(3 642 207)	1 046 986
<b>Total</b>	<b>6 340 550 469</b>	<b>(4 462 087 971)</b>	<b>1 878 462 498</b>	<b>6 292 314 036</b>	<b>(4 306 110 424)</b>	<b>1 986 203 612</b>

#### Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Donations	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	428 949 830	-	-	(366 263)	-	-	-	428 583 567
Buildings	287 272 231	1 264 558	-	(1 533 416)	-	(25 153 871)	(1 001 893)	260 847 609
Infrastructure	1 078 330 559	84 722	-	-	6 348 804	(117 081 110)	(180 884)	967 502 091
Assets under construction	122 164 553	45 981 893	-	-	(6 348 804)	-	-	161 797 642
Landfill site	36 625 386	-	-	(2 106 842)	-	(3 050 746)	-	31 467 798
Leased movable assets	2 143 128	-	-	(174 802)	-	(1 804 968)	-	163 358
Other property, plant and equipment	29 670 939	5 814 897	1 151 827	(4 111 052)	-	(4 902 861)	(37 092)	27 586 658
Library Books	1 046 986	-	-	(266 443)	-	(266 768)	-	513 775
	<b>1 986 203 612</b>	<b>53 146 070</b>	<b>1 151 827</b>	<b>(8 558 818)</b>	<b>-</b>	<b>(152 260 324)</b>	<b>(1 219 869)</b>	<b>1 878 462 498</b>

#### Reconciliation of property, plant and equipment - 2017

Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Impairment loss	Total
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# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements for the year ended 30 June 2018

Figures in Rand

### 3. Property, plant and equipment (continued)

Land	470 966 095	-	(42 016 265)	-	-	-	-	428 949 830
Buildings	274 803 780	-	-	43 610 635	(26 109 402)	-	(5 032 782)	287 272 231
Infrastructure	1 176 590 551	183 646	-	23 407 633	-	(118 897 710)	(2 953 561)	1 078 330 559
Assets Under construction	133 343 690	55 839 132	-	(67 018 269)	-	-	-	122 164 553
Landfill site	48 640 051	936 999	(8 080 852)	-	(4 870 812)	-	-	36 625 386
Leased assets	4 347 366	-	(106 953)	-	(2 097 285)	-	-	2 143 128
Other property, plant and equipment	34 769 069	3 827 419	(1 807 013)	-	-	(6 460 019)	(658 517)	29 670 939
Library Books	1 407 540	-	(19 578)	-	(340 976)	-	-	1 046 986
	<b>2 144 868 142</b>	<b>60 787 196</b>	<b>(52 030 661)</b>	<b>(1)</b>	<b>(33 418 475)</b>	<b>(125 357 729)</b>	<b>(8 644 860)</b>	<b>1 986 203 612</b>

### Pledged as security

Carrying value of assets pledged as security:

Office equipment 163 358 2 143 128  
 Included other property plant and equipment is office equipment subject to finance lease. The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer to note on the finance lease obligations.

### Details of properties

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements for the year ended 30 June 2018

Figures in Rand 2018 2017

### 4. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	3 266 544	(1 748 351)	1 518 193	3 283 859	(1 197 687)	2 086 172
Other intangible assets	274 910	-	274 910	-	-	-
<b>Total</b>	<b>3 541 454</b>	<b>(1 748 351)</b>	<b>1 793 103</b>	<b>3 283 859</b>	<b>(1 197 687)</b>	<b>2 086 172</b>

#### Reconciliation of intangible assets - 2018

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software, other	2 086 172	3 400	(8 466)	(562 913)	1 518 193
Other intangible assets	-	-	274 910	-	274 910
	<b>2 086 172</b>	<b>3 400</b>	<b>266 444</b>	<b>(562 913)</b>	<b>1 793 103</b>

#### Reconciliation of intangible assets - 2017

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software, other	2 216 131	419 787	(14 312)	(535 434)	2 086 172

#### Pledged as security

All intangible assets are held under freehold interests and no intangible assets have been pledged as security for any liabilities of the municipality

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 5. Heritage assets

	2018			2017		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical monuments	5 425 337	-	5 425 337	5 428 407	-	5 428 407

#### Reconciliation of heritage assets 2018

	Opening balance	Disposals	Total
Historical monuments	5 428 407	(3 070)	5 425 337

#### Reconciliation of heritage assets 2017

	Opening balance	Total
Historical monuments	5 428 407	5 428 407

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements for the year ended 30 June 2018

Figures in Rand	2018	2017
<b>5. Heritage assets (continued)</b>		
<b>Pledged as security</b>		
No heritage assets have been pledged as security for any liabilities of the municipality. A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.		
<b>6. Other financial assets</b>		
<b>Designated at fair value</b>		
Old mutual shares	897 256	1 056 431
Sanlam shares	171 812	158 890
	<b>1 069 068</b>	<b>1 215 321</b>
<b>At amortised cost</b>		
ABSA Fixed deposit	10 563 977	9 769 395
The ABSA balance is held as security for the DBSA loan with a balance of R4 565 067 as at year end (2017: R 6 197 565).		
<b>Total other financial assets</b>	<b>11 633 045</b>	<b>10 984 716</b>
<b>Non-current assets</b>		
At fair value	1 069 068	1 215 321
At amortised cost	10 563 977	9 769 395
	<b>11 633 045</b>	<b>10 984 716</b>



# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements for the year ended 30 June 2018

Figures in Rand	2018	2017
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### 7. Employee benefit obligations

#### Defined benefit plan

##### Post retirement medical aid plan

The municipality provides certain post - retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member who is on the current conditions of service is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit funding method.

At the valuation date individuals entitled to a post - retirement medical aid subsidy were:

In - service (employee) members.

In - service (employee) non - members.

Continuation (retiree and widow) members.

The amounts recognised in the statement of financial position are as follows:

#### Carrying value

Present value of the defined benefit obligation-wholly unfunded	(49 476 864)	(48 361 864)
Present value of the defined benefit obligation-partly or wholly funded	(7 004 000)	(1 115 000)
	<b>(56 480 864)</b>	<b>(49 476 864)</b>
Non-current liabilities	(54 963 864)	(48 361 864)
Current liabilities	(1 517 000)	(1 115 000)
	<b>(56 480 864)</b>	<b>(49 476 864)</b>

#### Valuation of assets

At the valuation date, the medical aid liability of the Municipality was unfunded, i.e. no dedicated assets had been set aside to meet this liability.

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	(49 476 864)	(51 915 864)
Benefits paid	4 162 000	3 781 000
Net expense recognised in the statement of financial performance	(11 166 000)	(1 342 000)
	<b>(56 480 864)</b>	<b>(49 476 864)</b>

#### Net expense recognised in the statement of financial performance

Current service cost	(1 115 000)	(1 204 000)
Interest cost	(4 544 000)	(4 507 000)
Actuarial (gains) losses	(5 507 000)	4 369 000
	<b>(11 166 000)</b>	<b>(1 342 000)</b>

#### Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9.63 %	9.47 %
Consumer Price Inflation	6.52 %	6.85 %
Health care costs inflation	7.52 %	7.85 %
Net discount rate	1.96 %	1.50 %

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements for the year ended 30 June 2018

Figures in Rand	2018	2017
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### 7. Employee benefit obligations (continued)

The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. We have used the average nominal yield curve for SA Government bonds with duration of between 10 and 11 years as at 30 June 2018. The resultant discount rate was 9.63%. The source is the Johannesburg Stock Exchange through INET BFA data services.

South Africa has experienced high health care cost inflation in recent years and our assumption is that health care cost will exceed general inflation by about 1% per annum. This is consistent with the previous assumption that was made by the previous actuary. The Health care cost inflation rate was therefore set at 7.52% per annum.

though the actual values used for the discount rate and the expected increase in medical inflation are important, the "gap(net discount rate)" between the two assumptions is more important. The net discount rate is 1.96% per annum (derived from a discount rate of 9.63% and the expected medical inflation rate of 7.52%).

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for ill-health and early retirements. It was assumed that post employment health care subsidy would be at 100% of active employees or their surviving dependents.

### Actuarial gains

The benefits payment of R 4 162 000 were made during the year and the the change in the net discount rate increased the interest cost by R 4 500 000 and service cost by R 1 115 000 , as a result the employee benefit obligation increased which resulted in the actuarial losses amounting to R 5 507 000.

### Sensitivity analysis

The valuation is only an estimate of the cost of providing post-employment medical aid benefits. The actual cost to the Municipality will be dependent on actual future levels of assumed variables i.e

- 20% increase/decrease in the assumed level of mortality;
- 1% increase/decrease in the Medical Aid inflation

### Withdrawal rate

The 20% decrease and 20% increase in the withdrawals assumption will result in will result in 0.86% increase and 0.80% decrease in the accrued liability respectively.

### Health care cost inflation

The valuation basis assume that the health care cost inflation rate will increase by 1. Therefore 1% increase in health care inflation assumption will result in 11.53% increase in the accrued liability and 1% decrease in health care inflation assumption will result in 9.75% decrease in the accrued liability.

### Withdrawal rate

Total Accrued Liability  
Current Service Cost  
Interest Cost

-20% Withdrawal rate	Valuation assumptions	+20% Withdrawal rate
45 184 000	56 480 000	67 776 000
1 213 600	1 517 000	1 820 400
4 238 400	5 298 000	6 357 600
<b>50 636 000</b>	<b>63 295 000</b>	<b>75 954 000</b>

### Health care cost inflation

Total Accrued Liability  
Current Service Cost  
Interest Cost

-1% Health care cost inflation	Valuation assumptions	+1% Health care cost inflation
55 915 000	56 480 000	57 044 000
1 501 830	1 517 000	1 532 000
5 245 000	5 298 000	5 350 000
<b>62 661 830</b>	<b>63 295 000</b>	<b>63 926 000</b>

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements for the year ended 30 June 2018

Figures in Rand	2018	2017
<b>8. Long term receivables</b>		
Credit quality of long term receivables		
The credit quality of long term receivables from exchange transactions that are either past due or impaired can be assessed for indicators of impairment. The municipality considers that the above financial assets that are not impaired at each of the reporting dates under review are of good credit quality. The municipality continuously monitors consumers and identified groups by reference to average payment history and incorporates this information into its credit risk control. No external credit rating is performed. Long term receivables include debtors with signed debt arrangement and/or handed over to lawyers		
The municipality enforces its approved credit policy to ensure the recovery of long term receivables. The balance of long term receivables are as follows.		
<b>Summary of long term debtors</b>		
Gross long term receivables	43 435 444	88 130 529
Less: Allowance for impairment	(39 116 150)	(84 420 886)
	<b>4 319 294</b>	<b>3 709 643</b>
Short term receivables	1 263 786	628 101
Long term receivables	3 055 508	3 081 542
<b>9. Inventories</b>		
Consumable stores	9 238 570	7 840 968
Water	670 549	654 877
	<b>9 909 119</b>	<b>8 495 845</b>
<b>10. Receivables from exchange transactions</b>		
Deposits	1 935 135	-
Other receivables	-	1 492 388
	<b>1 935 135</b>	<b>1 492 388</b>
<b>11. Receivables from non-exchange transactions</b>		
Fines	1 334 790	2 170 522
Government grants and subsidies	10 152 322	10 250 625
Property rates	72 505 879	33 265 091
	<b>83 992 991</b>	<b>45 686 238</b>

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements for the year ended 30 June 2018

Figures in Rand	2018	2017
<b>11. Receivables from non-exchange transactions (continued)</b>		
<b>Receivables from non-exchange transactions pledged as security</b>		
<b>Summary of property rates</b>		
Gross balance	104 700 213	77 843 433
Less: Allowance for impaired	(60 578 269)	(56 102 194)
	<b>44 121 944</b>	<b>21 741 239</b>
<b>Summary of rates per ageing</b>		
Current (0-30 days)	15 838 439	5 128 024
31-60 days	6 461 838	2 776 197
61-90 days	5 711 230	2 637 938
91-120 days	16 193 985	2 205 736
>120 days	60 494 721	65 095 538
Allowance for impairment	(60 578 269)	(56 102 194)
	<b>44 121 944</b>	<b>21 741 239</b>
<b>Consumers</b>		
Current (0-30 days)	7 151 490	1 207 085
31-60 days	3 271 223	1 131 192
61-90 days	2 903 204	946 599
91-120 days	8 012 915	822 227
>120 days	18 678 180	23 003 459
Allowance for impairment	(20 554 587)	(19 087 132)
	<b>19 462 425</b>	<b>8 023 430</b>
<b>Industrial/ Commercial</b>		
Current (0-30 days)	8 050 357	3 573 420
31-60 days	2 574 051	1 479 747
61-90 days	2 763 901	1 544 569
91-120 days	8 056 689	1 236 732
>120 days	33 431 796	36 297 561
Allowance for impairment	(34 170 308)	(31 574 285)
	<b>20 706 486</b>	<b>12 557 744</b>
<b>National and Provincial government</b>		
Current (0-30 days)	631 331	173 688
31-60 days	613 480	63 293
61-90 days	41 779	63 130
91-120 days	103 629	61 991
>120 days	8 351 289	3 492 236
Allowance for impairment	(5 818 964)	(3 318 898)
	<b>3 922 544</b>	<b>535 440</b>
<b>Other</b>		
Current (0-30 days)	5 260	173 832
31-60 days	3 084	101 964
61-90 days	2 347	83 640
91-120 days	20 753	84 786
>120 days	33 456	2 302 282
Allowance for impairment	(34 409)	(2 121 880)
	<b>30 491</b>	<b>624 624</b>

-None of the receivables from non-exchange transactions were pledged as security.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements for the year ended 30 June 2018

Figures in Rand	2018	2017
<b>11. Receivables from non-exchange transactions (continued)</b>		
<b>Reconciliation of provision for impairment of receivables from property rates</b>		
Opening balance	(62 038 436)	(56 102 195)
Provision for impairment movement	1 460 167	(5 936 241)
	<b>(60 578 269)</b>	<b>(62 038 436)</b>
<b>Fines</b>		
Fines for the financial year are as follows:		
<b>Summary of fines</b>		
Gross fines	56 317 216	46 398 356
Provision for impairment	(54 982 426)	(44 227 834)
	<b>1 334 790</b>	<b>2 170 522</b>
<b>Reconciliation of provision for impairment of receivables from fines</b>		
Opening balance	(44 227 834)	(26 230 145)
Provision for impairment	(10 754 592)	(17 997 689)
	<b>(54 982 426)</b>	<b>(44 227 834)</b>
<b>Credit quality of receivables from non-exchange transactions</b>		
The municipality considers that the above financial assets that are not impaired at each of the reporting dates under review are of good credit quality. The municipality continuously monitors consumers and identified groups by reference to average payment history and incorporates this information into its credit risk control. No external credit rating is performed.		
Assessment rate receivables are billed monthly. No interest is charged on these receivables until the 7th day of the following month. Thereafter interest is charged at a rate determined by council on the outstanding balance.		
<b>12. Consumer debtors</b>		
<b>Gross balances</b>		
Electricity	193 461 046	133 983 507
Water	442 125 257	294 554 284
Sewerage	161 768 986	119 231 171
Waste	122 771 416	107 264 181
Other	265 228 534	217 463 690
	<b>1 185 355 239</b>	<b>872 496 833</b>
<b>Less: Allowance for impairment</b>		
Electricity	(114 021 446)	(53 510 617)
Water	(399 318 733)	(238 954 339)
Sewerage	(126 685 637)	(103 974 664)
Refuse	(76 601 332)	(70 629 092)
Other	(201 969 819)	(212 801 587)
	<b>(918 596 967)</b>	<b>(679 870 299)</b>
<b>Net balance</b>		
Electricity	79 439 600	80 472 890
Water	42 806 524	55 599 945
Sewerage	35 083 349	15 256 507
Refuse	46 170 084	36 635 089
Other	63 258 715	4 662 103
	<b>266 758 272</b>	<b>192 626 534</b>

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements for the year ended 30 June 2018

Figures in Rand	2018	2017
<b>12. Consumer debtors (continued)</b>		
<b>Electricity</b>		
Current (0 -30 days)	60 431 130	30 767 763
31 - 60 days	12 742 115	5 792 196
61 - 90 days	6 669 381	4 400 138
91 - 120 days	16 355 277	3 307 747
121 - 365 days	97 263 143	89 713 713
> 365 days	(114 021 446)	(53 508 667)
	<b>79 439 600</b>	<b>80 472 890</b>
<b>Water</b>		
Current (0 -30 days)	46 566 355	28 365 935
31 - 60 days	16 827 344	10 370 234
61 - 90 days	14 706 713	12 285 318
91 - 120 days	55 980 248	9 368 094
121 - 365 days	308 044 597	234 164 704
> 365 days	(399 318 733)	(238 954 340)
	<b>42 806 524</b>	<b>55 599 945</b>
<b>Sewerage</b>		
Current (0 -30 days)	7 755 168	4 031 943
31 - 60 days	5 525 671	4 894 532
61 - 90 days	6 608 591	3 420 292
91 - 120 days	31 988 517	3 987 414
121 - 365 days	109 891 039	102 896 990
> 365 days	(126 685 637)	(103 974 664)
	<b>35 083 349</b>	<b>15 256 507</b>
<b>Refuse</b>		
Current (0 -30 days)	8 515 930	3 328 147
31 - 60 days	6 160 901	3 471 411
61 - 90 days	5 098 685	3 264 151
91 - 120 days	28 906 223	3 067 552
121 - 365 days	74 089 677	94 133 020
> 365 days	(76 601 332)	(70 629 192)
	<b>46 170 084</b>	<b>36 635 089</b>
<b>Other (specify)</b>		
Current (0 -30 days)	3 800 921	768 995
31 - 60 days	2 489 121	258 268
61 - 90 days	2 167 583	361 704
91 - 120 days	23 491 787	420 767
121 - 365 days	191 510 207	215 653 956
> 365 days	(201 969 819)	(212 801 587)
	<b>21 489 800</b>	<b>4 662 103</b>

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements for the year ended 30 June 2018

Figures in Rand	2018	2017
<b>12. Consumer debtors (continued)</b>		
<b>Summary of debtors by customer classification</b>		
<b>Consumers</b>		
Current (0 -30 days)	73 301 079	32 074 303
31 - 60 days	36 325 558	17 064 415
61 - 90 days	29 679 338	17 603 396
91 - 120 days	135 320 693	15 180 321
121 - 365 days	679 419 832	581 232 773
	<u>954 046 500</u>	<u>663 155 208</u>
Less: Allowance for impairment	(783 777 934)	(566 986 322)
	<b>170 268 566</b>	<b>96 168 886</b>
<b>Industrial/ commercial</b>		
Current (0 -30 days)	48 377 676	18 458 802
31 - 60 days	6 427 977	5 880 718
61 - 90 days	5 023 914	4 485 365
91 - 120 days	20 202 616	3 693 176
121 - 365 days	83 313 077	93 921 409
	<u>163 345 260</u>	<u>126 439 470</u>
Less: Allowance for impairment	(111 496 819)	(67 479 340)
	<b>51 848 441</b>	<b>58 960 130</b>
<b>National and provincial government</b>		
Current (0 -30 days)	5 288 868	16 103 792
31 - 60 days	926 436	1 545 755
61 - 90 days	471 809	1 288 731
91 - 120 days	1 030 481	1 006 800
121 - 365 days	18 902 469	25 516 515
	<u>26 620 063</u>	<u>45 461 593</u>
Less: Allowance for impairment	(22 452 004)	(22 166 792)
	<b>4 168 059</b>	<b>23 294 801</b>
<b>Other</b>		
Current (0 -30 days)	101 881	625 924
31 - 60 days	65 180	295 932
61 - 90 days	75 910	354 150
91 - 120 days	168 266	271 321
121 - 365 days	720 992	24 912 374
	<u>1 132 229</u>	<u>26 459 701</u>
Less: Allowance for impairment	(870 210)	(23 237 945)
	<b>262 019</b>	<b>3 221 756</b>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(679 870 299)	(811 768 638)
Contributions to allowance	(238 726 668)	(206 384 834)
Debt impairment written off against allowance	-	338 283 173
	<u>(918 596 967)</u>	<u>(679 870 299)</u>
<b>Consumer debtors pledged as security</b>		
No consumer debtors have been pledged as security for any liabilities of the municipality.		

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements for the year ended 30 June 2018

Figures in Rand	2018	2017
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### 12. Consumer debtors (continued)

#### Credit quality of consumer debtors

The credit quality of consumer receivables from exchange transactions that are neither past nor due nor impaired can be assessed for indicators of impairment. The municipality considers that the above financial assets that are not impaired at each of the reporting dates under review are of good credit quality. The municipality continuously monitors consumers and identified groups by reference to average payment history and incorporates this information into its credit risk control. No external credit rating is performed.

Consumer receivables are billed monthly. No interest is charged on consumer receivables until the 7th day of the following month. Thereafter interest is charged at a rate determined by council on the outstanding capital amount exclusive of interest. Assessment rate receivables are billed monthly. No interest is charged on these receivables until the 7th day of the following month. Thereafter interest is charged at a rate determined by council on the outstanding balance.

The municipality enforces its approved credit control policy to ensure the recovery of consumer receivables. Deposits are required to be paid for all water accounts opened.

None of the financial assets that are fully performing have been renegotiated in the last year

### 13. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	21 810	21 810
Bank balances	(132 659 480)	35 535 224
Short-term deposits	23 353 982	3 829 739
	<b>(109 283 688)</b>	<b>39 386 773</b>

#### Cash and cash equivalents pledged as collateral

Total financial assets pledged as collateral for post office mailing account	300 000	300 000
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#### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2018	30 June 2017	30 June 2016	30 June 2018	30 June 2017	30 June 2016
Standard Bank Account - Primary account - 030192358	33 720 084	33 885 001	11 046 718	(132 659 480)	35 535 212	11 968 318
Standard Bank Account - MIG - 038787024-008	278 131	52 953	46 522	278 131	52 953	46 522
Standard Bank Account - EMBA-038787024-003	362 617	341 209	320 110	362 617	341 209	320 110
Standard Bank Account -Traffic -030195276	2 813 915	2 122 654	1 402 790	2 813 915	2 122 654	1 402 790
Standard Bank Account - Call account -038787024-009	19 890 697	1 312 922	1 231 125	19 890 697	1 312 922	1 231 125
<b>Total</b>	<b>57 065 444</b>	<b>37 714 739</b>	<b>14 047 265</b>	<b>(109 314 120)</b>	<b>39 364 950</b>	<b>14 968 865</b>



# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements for the year ended 30 June 2018

Figures in Rand	2018	2017
<b>14. Finance lease obligation</b>		
<b>Minimum lease payments due</b>		
- within one year	491 853	2 953 039
- in second to fifth year inclusive	-	491 853
	491 853	3 444 892
less: future finance charges	(11 049)	(361 432)
	<b>480 804</b>	<b>3 083 460</b>
<b>Present value of minimum lease payments due</b>		
- within one year	480 804	2 602 656
- in second to fifth year inclusive	-	480 804
	<b>480 804</b>	<b>3 083 460</b>
Non-current liabilities	-	480 804
Current liabilities	480 804	2 602 656
	<b>480 804</b>	<b>3 083 460</b>

It is municipality policy to lease certain equipment under finance leases.

The average lease term was 3 years and the average effective borrowing rate was 10% (2017: 10%).

Interest rates are fixed at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 4.

### 15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Municipal Infrastructure Grant	-	916 535
LG SETA Grant	1 372 394	693 229
Sports & Development Grant	453 685	453 685
Integrated National Electrification Programme Grant	11 399 028	8 497
SASOL Point duty officers	313 901	313 901
Pre-capacity grant	286 843	286 843
SASOL	15 116 475	15 116 475
Financial Management Grant	9 676	18 217
Energy Efficient and Demand side Management Grant	4 000 000	-
Extended Public Works Programme Grant	277 706	-
	<b>33 229 708</b>	<b>17 807 382</b>

The grant liability indicated the nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited. Fulfilled conditions and other contingencies attaching to government assistance that has been recognised as revenue and disclosed in the grant income note of the annual financial statements.

### 16. Other financial liabilities

#### At amortised cost

Development Bank of South Africa	4 565 068	6 197 566
ESKOM Debt	109 012 451	-
	<b>113 577 519</b>	<b>6 197 566</b>

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements for the year ended 30 June 2018

Figures in Rand	2018	2017
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### 16. Other financial liabilities (continued)

<b>Total other financial liabilities</b>	<b>113 577 519</b>	<b>6 197 566</b>
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Included in the above other financial liabilities is the ESKOM debt reclassified from current liabilities, to align to the signed debt agreement.

#### Non-current liabilities

At amortised cost	111 792 737	4 612 275
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#### Current liabilities

At amortised cost	1 784 782	1 585 291
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### 17. Provisions for Landfill site

#### Reconciliation of provisions for landfill site - 2018

	Opening Balance	Additions	Total
Landfill site	83 944 431	1 201 095	85 145 526

#### Reconciliation of provisions for landfill site - 2017

	Opening Balance	Utilised during the year	Reversed during the year	Change in discount factor	Total
Landfill site	90 033 246	(11 594 757)	3 729 420	1 776 522	83 944 431
Non-current liabilities				82 293 151	81 333 759
Current liabilities				2 852 375	2 610 672
				<b>85 145 526</b>	<b>83 944 431</b>

#### Landfill site rehabilitation provision

The municipality will incur licensing and rehabilitation cost of R85 145 526 (2017: R83 944 431) to restore landfill sites at the end of their use. As at 30 June 2018, this liability will be incurred over 0 to 34 years. Provision has been made for the net present value of the expenditures expected to be required to settle the obligation using the average cost of borrowings.

In the current year the waste management team accurately accounted for waste dispositions in the landfill sites. The increased accuracy in volumes of waste dumped at these sites resulted in more accurate site life calculations. The effect of the changes resulted in decrease in provisions by R 11 594 757.

The net discount rate increased from 3.11% to 3.35% and thus increased the liability as at 30 June 2018.

The priced quotations used to quantify the rehabilitation costs and closure costs increased in the financial year. The net effect of the increase was R 4 032 736.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements for the year ended 30 June 2018

Figures in Rand	2018	2017
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### 18. Long service award liability

The municipality operates a defined benefit plan for all its employees. The long service award liability is not a funded arrangement, i.e. no separate assets have been set aside to meet its liability.

Under the plan, a long service award is payable after 10 years of continuous service and every 5 years thereafter, until 45 years of service (inclusive) to employees. Furthermore, a retirement gift is payable on retirement to employees with 10 years or more service. The provision is an estimate of a long service based on historical staff turnover. No other long service benefits are provided to employees.

The Projected Unit Credit funding method has been used to determine the past-service liabilities at the valuation date and the projected annual expense in the year following the valuation date.

At year end, 1,248 (2017: 1,326) employees were eligible for long service awards.

#### Valuation of liabilities

Accrued liabilities are defined as the actuarial present value of all benefits expected to be paid in future based on service accrued to the valuation date and awards projected to retirement date. In determining these liabilities, due allowance has been made for future award increases. For each employee, this projection is based on the probability of being employed at each service award date, taking into account the assumed rates of withdrawal, early retirement and death.

#### Valuation of assets

As at the valuation date, the long service leave award liability of the Municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability

The amounts recognised in the statement of financial position are as follows:

#### Carrying amount

Opening balance	(26 640 000)	(24 479 000)
Movement in long service award liability	712 750	(2 161 000)
	<b>(25 927 250)</b>	<b>(26 640 000)</b>
Non current liabilities	(23 686 243)	(24 363 000)
Current liabilities	(2 241 007)	(2 277 000)
	<b>(25 927 250)</b>	<b>(26 640 000)</b>

#### Changes in the present value of the long service award liability are as follows:

Opening balance	(26 640 000)	(24 479 000)
Benefits paid	2 641 982	1 926 000
Net expense recognised in the statement of financial performance	(1 929 232)	(4 087 000)
	<b>(25 927 250)</b>	<b>(26 640 000)</b>

#### Net expense recognised in the statement of financial performance

Current service cost	(2 187 000)	(2 187 000)
Interest cost	(2 341 607)	(2 208 000)
Actuarial gains/ (losses)	2 599 375	308 000
	<b>(1 929 232)</b>	<b>(4 087 000)</b>

The accrued liability is determined on the basis that each employee's long service benefit accrues uniformly over the working life of an employee up to the end of the interval at which the benefit becomes payable. Further it is assumed that the current policy for awarding long service awards remains unchanged in the future.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements for the year ended 30 June 2018

Figures in Rand	2018	2017
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### 18. Long service award liability (continued)

The discount rate determined by using the Bond Exchange (JSE) Zero Coupon Yield Curve as at 30 June 2018 is 8.98% per annum. The assumed discount rate used at the previous valuation, 30 June 2017, was 8.45% per annum. The inflation rate is therefore assumed at 5.97% per annum.

It was assumed that salary inflation would exceed general inflation by 1.0% per annum, i.e. 6.97% per annum. However, it is the relative levels of the discount rate and healthcare inflation to one another that are important, rather than the nominal values. We have thus assumed a net discount factor of 1.87%.

#### Actuarial gain can be attributed to the following factors

Changes in economic variables increased the liability.  
Increase in employees entitled to other long service award benefits.

#### Financial variable

Discount rate	8.98%	8.45%
Future inflation	5.97%	5.84%
Salary inflation	6.97%	6.84%
Net Discount Rate	1.87%	1.51%
Expected retirement age - female	63	63
Expected retirement age - male	63	63
	-	-

#### Sensitivity analysis

The valuation is only an estimate of the cost of providing Long service leave award benefits. The actual cost to the Municipality will be dependent on actual future levels of assumed variables and the demographic profile of the membership. In order to illustrate the sensitivity of our results to changes in certain key variables, the liabilities were recalculated using the following assumptions:

- 20% increase/decrease in the assumed level of withdrawal rates;
- 1% increase/decrease in the Normal Salary cost inflation.

#### Withdrawal rate

Deviations from the assumed level of withdrawal experience of the eligible employees will have a large impact on the actual cost to the Municipality. If the actual rates of withdrawal turns out to be higher than the rates assumed in the valuation basis, then the cost to the Municipality in the form of benefits will reduce and vice versa.

We have illustrated the effect of higher and lower withdrawal rates by increasing and decreasing the withdrawal rates by 20%.

#### Normal salary inflation

The cost of the long service awards is dependent on the increase in the annual salaries paid to employees. The rate at which salaries increase will thus have a direct effect on the liability of future retirees.

We have tested the effect of a 1% p.a. change in the Normal Salary inflation assumption.

The effect of the above is as follows:

#### Withdrawals

	-20% Withdrawal rate	Valuation Assumptions	+20% Withdrawal rate
Total Accrued Liability	20 741 800	25 927 250	31 112 700
Current Service Cost	1 749 600	2 187 000	2 624 400
Interest Cost	1 873 286	2 341 607	2 809 928
	<b>24 364 686</b>	<b>30 455 857</b>	<b>36 547 028</b>

#### Normal salary inflation

-1% Normal salary inflation	Valuation Assumptions	+1% Normal salary inflation
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# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements for the year ended 30 June 2018

Figures in Rand	2018	2017
<b>18. Long service award liability (continued)</b>		
Total Accrued Liability	25 667 978	25 927 000
Current Service Cost	2 165 130	2 187 000
Interest Cost	2 318 191	2 365 023
	<b>30 151 299</b>	<b>30 455 000</b>
	<b>30 760 416</b>	
<b>19. Payables from exchange transactions</b>		
Trade payables	931 971 223	856 790 932
Accrued leave	34 122 885	22 045 186
Accrued bonus	8 095 637	7 744 321
Debtors with credits	34 309 881	-
Accrued expense	13 911 692	-
Retentions	13 852 066	14 487 584
Sundry creditors	1 054 095	2 360 860
Deposit received	92 013	183 037
Salary control	(160 628 814)	-
Other creditors - inventory	509 209	-
	<b>877 289 887</b>	<b>903 611 920</b>
<b>20. Payables from non-exchange transactions</b>		
Advance receipts - Transfers	13 298 067	-
Unallocated receipts	3 946 650	4 041 128
	<b>17 244 717</b>	<b>4 041 128</b>
<b>21. Consumer deposits</b>		
Electricity & Water	9 130 469	23 124 103
Water	15 097 524	-
Refuse	1 013	-
Housing rental	19 051	-
	<b>24 248 057</b>	<b>23 124 103</b>
<b>22. Revenue</b>		
Service charges	1 122 050 512	1 022 655 262
Rental of facilities and equipment	1 577 819	4 100 433
Interest received on outstanding debtors	41 597 307	44 537 487
Income from agency services	-	23 730 891
Miscellaneous other revenue	13 309 558	12 842 950
Administration and management fees received	-	3 139 518
Fees earned	1 599 893	5 000 739
Other income	-	2 252 494
Interest received - investment	2 205 023	1 538 588
Dividends received	-	26 668
Property rates	268 900 115	244 214 874
Government grants & subsidies	293 386 666	284 799 984
Fines	10 851 142	15 085 912
Insurance claims	14 440 988	542 371
	<b>1 769 919 023</b>	<b>1 664 468 171</b>

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements for the year ended 30 June 2018

Figures in Rand	2018	2017
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### 22. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	1 122 050 512	1 022 655 262
Rental of facilities and equipment	1 577 819	4 100 433
Interest received (trading)	41 597 307	44 537 487
Agency services	-	23 730 891
Miscellaneous other revenue	13 309 558	12 842 950
Administration and management fees received	-	3 139 518
Fees earned	1 599 893	5 000 739
Other income	-	2 252 494
Interest received - investment	2 205 023	1 538 588
Dividends received	-	26 668
	<b>1 182 340 112</b>	<b>1 119 825 030</b>

The amount included in revenue arising from non-exchange transactions is as follows:

#### Taxation revenue

Property rates	268 900 115	244 214 874
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#### Transfer revenue

Government grants & subsidies	293 386 666	284 799 984
Fines	10 851 142	15 085 912
Insurance claims	14 440 988	542 371
	<b>587 578 911</b>	<b>544 643 141</b>

### 23. Service charges

Sale of electricity	517 614 600	486 036 796
Sale of water	429 719 275	337 849 965
Sewerage and sanitation charges	99 075 479	92 480 585
Refuse removal	75 641 158	106 287 916
	<b>1 122 050 512</b>	<b>1 022 655 262</b>

### 24. Other income

Advertising income	-	152 642
Commission	-	16
Landfill site	-	827 015
Surplus monies	-	55 453
Skills development refund	-	160 065
Settlement discount	-	260 524
Photocopying	-	122 393
Consent use	-	48 352
Sundry revenue	-	348 048
Retention write-off	-	277 986
	-	<b>2 252 494</b>

Sundry revenue relates to other earnings that are not the primary income generating activities of the municipality such as library lost book fines and informal trading fees.

The other income above is adhoc as a result in the current year the municipality did not earn revenue in the respective stream.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements for the year ended 30 June 2018

Figures in Rand	2018	2017
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### 25. Investment revenue

#### Dividend revenue

Other financial asset	-	26 668
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#### Interest revenue

Short term investments	2 205 023	1 526 985
Bank	-	11 603
	<b>2 205 023</b>	<b>1 538 588</b>

### 26. Property rates

#### Rates received

Residential	249 501 753	145 407 158
Commercial	17 723 387	118 924 768
State	1 355 617	11 066 261
Small holdings and farms	342 242	1 936 194
Churches	(22 884)	1 741 547
Less: Income forgone	-	(34 861 054)
	<b>268 900 115</b>	<b>244 214 874</b>

#### Valuations

Residential	20 214 720 861	18 996 178 170
Commercial	6 006 454 800	5 453 627 915
State	276 787 000	471 588 000
Municipal	653 931 515	382 621 565
Small holdings and farms	3 278 771 500	2 490 882 785
Churches	308 927 000	1 070 355 344
NGO's	82 767 600	232 453 000
	<b>30 822 360 276</b>	<b>29 097 706 779</b>

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2016. Supplementary valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

### 27. Grants and subsidies paid

#### Other subsidies

Electricity indigent support	-	236 634
Sewerage indigent support	2 986 242	13 368 827
Rates indigent support	-	2 169 207
Refuse indigent support	-	6 589 461
Water indigent support	-	10 785 971
Pauper's burial	-	11 250
	<b>2 986 242</b>	<b>33 161 350</b>

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements for the year ended 30 June 2018

Figures in Rand	2018	2017
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### 28. Government grants and subsidies

#### Operating grants

Equitable share	218 181 249	199 429 829
Extended public works programme	3 966 294	2 568 000
Financial Management Grant	1 690 324	1 606 783
Pre-capacity Grant	-	119 149
Municipal Infrastructure Skills Development	23 000 000	14 000 000
Economic Development and Tourism	-	1 912 766
SASOL - Point duty officers	-	1 830 216
Gert Sibande District Municipality	-	1 140 443
	<b>246 837 867</b>	<b>222 607 186</b>

#### Capital grants

Municipal Infrastructure Grant	42 796 000	57 196 295
Sasol	289 683	5 000
Rand water	371 413	-
Department of sports	490 731	-
Intergrated National Electrification programme Grant	2 600 972	4 991 503
	<b>46 548 799</b>	<b>62 192 798</b>
	<b>293 386 666</b>	<b>284 799 984</b>

#### Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	75 205 417	85 370 155
Unconditional grants received	218 181 249	199 429 829
	<b>293 386 666</b>	<b>284 799 984</b>

#### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of 217 (2017:213), which is funded from the grant. The subsidy is determined annually by council. All indigent residential households received 10kl water and 50kwh electricity free every month.

#### Municipal Infrastructure Grant

Balance unspent at beginning of year	916 535	2 951 830
Current-year receipts	42 796 000	55 161 000
Conditions met - transferred to revenue	(45 396 972)	(57 196 295)
Monies withheld by Treasury	(916 535)	-
	<b>(2 600 972)</b>	<b>916 535</b>

The Municipal Infrastructure Grant (MIG) was allocated for the construction of roads and sewerage infrastructure as part of the upgrading of previously disadvantaged areas.

#### Gert Sibande District Municipality

Balance unspent at beginning of year	(13 684)	(13 684)
Current-year receipts	-	1 140 443
Conditions met - transferred to revenue	-	(1 140 443)
	<b>(13 684)</b>	<b>(13 684)</b>



# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements for the year ended 30 June 2018

Figures in Rand	2018	2017
<b>28. Government grants and subsidies (continued)</b>		
This grant was used to construct roads, sewerage and water infrastructure as part of the upgrading of informal settlement areas.		
<b>Sports and Development Grant</b>		
Balance unspent at beginning of year	453 685	453 685
This grant was received for promotion and development of sport. Projects identified for application of the grant will run in the subsequent financial year. No funds have been withheld.		
<b>Municipal Systems Improvement Grant</b>		
Balance unspent at beginning of year	-	35 263
Other	-	(35 263)
	-	-
The Municipal Systems Improvement Grant is allocated to municipalities to improve municipal systems and is also used to improve technology networks and ward committee operations.		
<b>Pre-capacity grant</b>		
Balance unspent at beginning of year	286 843	405 992
Conditions met - transferred to revenue	-	(119 149)
	<b>286 843</b>	<b>286 843</b>
The grant was allocated to ensure that the social housing programme of provincial government was carried out. The municipality acts as an agent for implementation of the plan.		
<b>Department of Human Settlement</b>		
Balance unspent at beginning of year	(9 859 425)	(9 859 425)
The Human settlement grant is allocated to municipality for the creation of sustainable human settlements that enables an improved quality of household life and the facilitation and provision of access to basic infrastructure, top structures and basic social and economic amenities that contribute to the creation of sustainable human settlements.		
<b>SASOL</b>		
Balance unspent at beginning of year	15 116 475	15 116 475
<b>Financial Management Grant</b>		
Balance unspent at beginning of year	18 217	434 558
Current-year receipts	1 700 000	1 625 000
Conditions met - transferred to revenue	(1 690 324)	(1 606 783)
Monies withheld by Treasury	(18 217)	(434 558)
	<b>9 676</b>	<b>18 217</b>
The Finance Management Grant is allocated to assist the municipality to secure sound and sustainable management of the fiscal and financial affairs and to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act (MFMA).		
<b>Extended Public Works Programme</b>		
Current-year receipts	4 244 000	2 568 000

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements for the year ended 30 June 2018

Figures in Rand	2018	2017
<b>28. Government grants and subsidies (continued)</b>		
Conditions met - transferred to revenue	(3 966 294)	(2 568 000)
	<b>277 706</b>	-

EPWP grant incentives municipalities to expand work creation efforts through the use of labour intensive delivery methods in the identified focus area and in compliance with the EPWP guidelines.

### Municipal Skills Development Grant

Current-year receipts	23 000 000	14 000 000
Conditions met - transferred to revenue	(23 000 000)	(14 000 000)
	-	-

The grant is allocate to support the municipality to build long term and sustainable capacity by training a pool of young professionals in technical and project/operations management skills.

### Sasol Point Duty Traffic Officers

Balance unspent at beginning of year	(377 470)	-
Current-year receipts	-	1 456 621
Conditions met - transferred to revenue	-	(1 834 091)
	<b>(377 470)</b>	<b>(377 470)</b>

### LG SETA Grant

Balance unspent at beginning of year	693 229	-
Current-year receipts	679 164	693 229
	<b>1 372 393</b>	<b>693 229</b>

The LGSETA mission is to build Local Governments' ability to meet its development needs by engaging innovative training methods, effective capacity building frameworks and building strategic partnerships. LGSETA creates and implements various innovative skills development interventions aimed at assisting local government employees, the unemployed and other people such as ward councillors and traditional leaders working within the structures of local government.

LG SETA allocates on a yearly basis the grants to the municipality to ensure that the skills development objectives are met as per Workplace Skills Plan(WSP).

### Energy Efficiency & Demand Side Management Grant

Current-year receipts	4 000 000	-
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Provision of subsidies to municipalities to implement energy efficiency and demand side management initiatives within municipal infrastructure in order to reduce electricity consumption and improve energy efficiency.

### Intergrated National Electrification Programme Grant

Balance unspent at beginning of year	8 497	-
Current-year receipts	14 000 000	5 000 000
Conditions met - transferred to revenue	(2 600 972)	(4 991 503)
Monies withheld by Treasury	(8 497)	-
	<b>11 399 028</b>	<b>8 497</b>

Implementation the Integrated National Electrification Programme by providing capital subsidies to municipalities to address the electrification backlog of all existing and planned residential dwellings including upgrade of informal settlements, new, and normalisation, and the installation of relevant bulk infrastructure.

### Economic Development and Tourism

## Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

### Notes to the Annual Financial Statements for the year ended 30 June 2018

Figures in Rand	2018	2017
<b>28. Government grants and subsidies (continued)</b>		
Balance unspent at beginning of year	313 900	(237 589)
Current-year receipts	-	2 464 255
Conditions met - transferred to revenue	-	(1 912 766)
	<b>313 900</b>	<b>313 900</b>

Contribution towards the detailed technical feasibility study and the development of business plan for establishment of Industrial Park.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements for the year ended 30 June 2018

Figures in Rand	2018	2017
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### 29. Employee related costs

Basic	239 890 772	228 947 381
Bonus	13 192 192	16 574 157
Medical aid - company contributions	17 388 938	27 447 278
UIF	1 691 903	2 378 743
SDL	86 426	4 335 739
Leave pay provision charge	13 428 917	3 637 523
Pension fund contribution	38 389 973	46 627 534
Defined contribution plans	-	3 767 851
Travel, motor car, accommodation, subsistence and other allowances	12 015 978	15 435 056
Overtime payments	17 524 522	22 295 114
Long-service awards	2 187 000	3 391 000
Cellphone allowance	1 578 059	2 127 099
Allowance Standby	3 883 414	14 107 189
Industrial council levy	84 011	124 912
Non-Pensionable Allowance;	1 131 980	48 719 761
Housing subsidy	895 716	2 961 455
	<b>363 369 801</b>	<b>442 877 792</b>

### Remuneration of municipal manager

Annual Remuneration	350 578	1 034 920
Car Allowance	-	67 734
Cellphone allowance	18 000	13 600
Contributions to UIF, Medical and Pension Funds	1 487	211 223
	<b>370 065</b>	<b>1 327 477</b>

The Municipal Manager was appointed on 16 January 2012. The contract for Mr MF Mahlangu ended on the 28 February 2017, Various officials were delegated by council accordingly to act in the position. The position of the Municipal Manager was vacant for a while as a result the following officials acted on the position

Mr Michelle ME: 1 March 2017 to 15 August 2017

Mr Mhlanga BM: 15 August 2017 to 29 June 2018

Mr Morolo MC: 9 July 2018 to 30 September 2018

Mr Mndebele SF resumed as the Municipal Manager from 1 October 2018 on a permanent placement.

### Remuneration of chief finance officer

Annual Remuneration	857 801	1 246 833
Car Allowance	72 000	96 000
Cellphone allowance	16 200	16 200
Contributions to UIF, Medical and Pension Funds	144 441	234 336
	<b>1 090 442</b>	<b>1 593 369</b>

The Chief Financial Officer was appointed on 01 June 2010. Mr Mokgatsi's contracted ended on the 30 June 2017, Mr Mahlangu the Deputy Director Revenue Acting as the CFO since the 1 July 2017 until the 30 September 2017. On the 1 October 2017 the municipality appointed Mr BB Sithole as the permanent Chief Financial Officer.

### Remuneration of Director Corporate: Mahlangu ZL

Annual Remuneration	999 698	930 777
Car Allowance	72 000	96 000
Performance Bonuses	16 200	21 600
Contributions to UIF, Medical and Pension Funds	160 721	184 823
	<b>1 248 619</b>	<b>1 233 200</b>

The director was appointed on 01 April 2013 and the contract ended on the 31 March 2018.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements for the year ended 30 June 2018

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### 29. Employee related costs (continued)

#### Remuneration of Director Community Services: Zulu ET

Annual Remuneration	694 690	781 632
Car Allowance	280 000	336 000
Cellphone allowance	16 969	21 600
Contributions to UIF, Medical and Pension Funds	128 760	154 459
	<b>1 120 419</b>	<b>1 293 691</b>

The director was appointed on 15 April 2013 and the contract ended on the 30 April 2018

#### Remuneration of Director Planning and Development: Wetbooi NS

Annual Remuneration	804 233	894 954
Car Allowance	80 000	96 000
Cellphone allowance	17 147	21 600
Contributions to UIF, Medical and Pension Funds	133 394	159 679
	<b>1 034 774</b>	<b>1 172 233</b>

The director was appointed on 01 April 2013 and the contract ended on the 30 April 2018

#### Remuneration of Director Technical Services Masia MH

Annual Remuneration	738 880	748 313
Car Allowance	64 000	96 000
Performance Bonuses	14 518	21 600
Contributions to UIF, Medical and Pension Funds	106 767	149 461
	<b>924 165</b>	<b>1 015 374</b>

The director was appointed on 1 March 2015 and contracted ended on the 31 March 2018. The Deputy Director Project Management Unit acted on the position and a new director was then appointed and resumed his duties on the 1 October 2018.

#### Remuneration of Regional Manager: Sihlali HK

Annual Remuneration	847 292	797 344
Car Allowance	120 000	120 000
Cellphone allowance	21 600	21 600
Contributions to UIF, Medical and Pension Funds	173 813	164 808
	<b>1 162 705</b>	<b>1 103 752</b>

Regional manager was appointed on 01 February 2014

#### Remuneration of Regional Manager: Mashiane MR

Annual Remuneration	857 831	807 336
Car Allowance	120 000	120 000
Performance Bonuses	21 600	21 600
Contributions to UIF, Medical and Pension Funds	175 393	166 309
	<b>1 174 824</b>	<b>1 115 245</b>

Regional manager was appointed on 01 February 2014

#### Remuneration of Regional Manager: Michele ME

Annual Remuneration	574 696	784 785
Car Allowance	80 640	144 000

## Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

### Notes to the Annual Financial Statements for the year ended 30 June 2018

Figures in Rand	2018	2017
<b>29. Employee related costs (continued)</b>		
Performance Bonuses	11 924	21 600
Contributions to UIF, Medical and Pension Funds	95 954	164 861
	<b>763 214</b>	<b>1 115 246</b>

Regional manager was appointed on 01 February 2014 and he resigned on the 31 January 2018.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements for the year ended 30 June 2018

Figures in Rand	2018	2017
<b>30. Remuneration of councillors</b>		
Councillors	16 172 374	20 574 230
Reimbursive allowance	79 286	-
	<b>16 251 660</b>	<b>20 574 230</b>

### Councillors

The Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The remuneration of political office bearers and councillors is within the upper limits as determined by Remuneration of Public Officers Bearers Act no. 20 of 1998 and as per Government Gazette no.37281.

Councillor	Appointment date	Salary	Pension	Medical aid	Other allowances	Total
Badenhorst HJ	2017/07/05	183 693.49	27 564.00	-	91 071.48	302 328.97
Botha C	2017/07/05	212 388.98	31 860.00	17 280.00	40 800.00	302 328.98
Cardinal Von Widdern TC	2017/07/05	80 145.42	9 865.00	7 200.00	29 500.00	126 710.42
Chamberlain M	2017/07/05	212 388.98	31 860.00	17 280.00	40 800.00	302 328.98
De Vries GR	2017/07/05	227 412.98	34 116.00	-	40 800.00	302 328.98
Denny TM	2017/07/05	183 693.49	27 564.00	-	91 071.48	302 328.97
Dube TH	2017/05/26	218 648.98	32 800.00	10 080.00	40 800.00	302 328.98
Fourie ME	2017/07/05	227 412.98	34 116.00	-	40 800.00	302 328.98
Gwiji CV	2017/07/05	398 840.02	59 832.00	17 280.00	166 476.00	642 428.02
Hlolweni S	2017/07/05	175 836.00	26 385.00	-	100 107.96	302 328.96
Klaas NP	2017/07/05	222 988.98	33 452.00	5 088.00	40 800.00	302 328.98
Lukhele I	2017/07/05	198 266.66	29 748.00	-	74 314.32	302 328.98
Mabizela TM	2017/07/05	227 412.98	34 116.00	-	40 800.00	302 328.98
Maboaboltman NF	2017/07/05	478 943.41	70 360.00	12 960.00	27 758.90	590 022.31
Mahlangu BD	2017/07/05	168 669.49	25 308.00	17 280.00	91 071.48	302 328.97
Mahlangu BD	2017/07/05	197 815.82	29 676.00	17 280.00	57 557.16	302 328.98
Mahlangu BS	2017/07/05	481 617.67	72 250.00	-	36 459.18	590 326.85
Mahlangu BS	2017/10/31	144 137.22	21 616.00	8 640.00	25 811.78	200 205.00
Mahlangu E	2017/07/05	173 564.79	26 042.00	15 840.00	86 882.19	302 328.98
Mahlangu NP	2017/07/05	168 669.49	25 308.00	17 280.00	91 071.48	302 328.97
Makhanye SA	2017/07/05	414 644.26	62 208.00	17 280.00	166 478.76	660 611.02
Makola MB	2017/07/04	175 836.00	26 385.00	-	100 107.96	302 328.96
Malaza NG	2017/07/05	213 640.98	32 048.00	15 840.00	40 800.00	302 328.98
Maseko TM	2016/12/01	227 412.98	34 116.00	-	40 800.00	302 328.98
Masina NA	2017/12/05	131 463.97	19 621.00	-	23 529.86	174 614.83
Masuku PIP	2017/07/05	176 918.26	26 547.00	17 280.00	100 109.04	320 854.30
Mathebula SB	2017/07/05	178 242.98	26 746.00	-	97 340.00	302 328.98
Mazibuko KD	2017/07/05	183 693.49	27 564.00	-	91 071.48	302 328.97
Mbokazi AV	2017/07/05	175 836.98	26 385.00	-	100 107.00	302 328.98
MBONANI LM	2017/07/05	227 412.98	34 116.00	-	40 800.00	302 328.98
Mkhaliphi S	2017/07/05	183 693.49	27 564.00	-	91 071.48	302 328.97
Mkwebane ZA	2017/07/05	216 144.98	32 424.00	12 960.00	40 800.00	302 328.98
Mnisi TR	2017/07/05	214 119.38	32 124.00	15 285.60	40 800.00	302 328.98
Mofokeng TS	2017/07/05	227 412.98	34 116.00	-	40 800.00	302 328.98
Mokoena BD	2017/07/05	183 693.49	27 564.00	-	91 071.48	302 328.97
Moloto BD	2017/07/05	175 836.00	26 385.00	-	100 107.96	302 328.96
Morajane TA	2017/07/05	183 693.49	27 564.00	-	91 071.48	302 328.97
Motloung ME	2017/07/05	173 772.98	26 076.00	-	102 480.00	302 328.98
Mtshali PD	2017/07/05	429 680.26	64 452.00	-	166 478.76	660 611.02
Mtsweni MJ	2017/07/05	183 693.49	27 564.00	-	91 071.48	302 328.97
Mtsweni TP	2017/07/05	367 899.01	55 188.00	-	166 478.76	589 565.77
Mukwanazi AO	2017/07/05	40 740.24	6 114.00	-	20 526.99	67 381.23
Ndaba BB	2017/07/05	395 604.98	59 352.00	17 280.00	188 373.96	660 610.94
Ndoda NM	2017/07/05	187 336.78	28 110.00	-	86 882.19	302 328.97

# Govan Mbeki Municipality

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## Notes to the Annual Financial Statements for the year ended 30 June 2018

Figures in Rand					2018	2017
<b>30. Remuneration of councillors (continued)</b>						
Ndwanyaza PN	2017/07/05	227 412.98	34 116.00	-	40 800.00	302 328.98
Nel Buitendag AD	2017/07/05	227 412.98	34 116.00	-	40 800.00	302 328.98
Ngxonono YT	2017/07/05	473 219.49	70 991.00	17 280.00	166 478.76	727 969.25
Nhlapho MD	2017/07/05	327 982.19	49 201.00	-	91 071.48	468 254.67
Njinga SC	2017/07/05	172 765.62	25 924.00	-	103 639.35	302 328.97
Nkabinde ER	2017/07/05	160 808.02	24 132.00	17 280.00	100 109.04	302 329.06
Nkabinde JB	2017/07/05	183 693.49	27 564.00	-	91 071.48	302 328.97
Nkosi MJ	2017/07/05	183 693.49	27 564.00	-	91 071.48	302 328.97
Nkosi NE	2017/07/05	414 644.26	62 208.00	17 280.00	166 478.76	660 611.02
Ntuli SR	2017/07/05	227 412.98	34 116.00	-	40 800.00	302 328.98
Sebolela JD	2017/07/05	183 693.49	27 564.00	-	91 071.49	302 328.98
Shai KJ	2017/07/05	173 772.98	26 076.00	-	102 480.10	302 329.08
Sibanyoni SI	2017/07/05	160 808.02	24 034.00	17 280.00	100 109.04	302 321.06
Sithole LE	2017/07/05	160 808.02	24 132.00	17 280.00	100 109.04	302 329.06
Swart EP	2017/07/05	227 412.98	34 116.00	-	40 800.00	302 328.98
Thabethe IM	2017/07/05	173 772.98	26 076.00	-	102 480.00	302 328.98
Van Huyssteen NC	2017/07/05	168 669.49	25 308.00	17 280.00	91 071.48	302 328.97
Van Rooyen EJ	2017/07/05	183 693.49	27 564.00	-	91 071.48	302 328.97
Vilakazi EA	2017/07/05	168 669.49	25 308.00	17 280.00	91 071.48	302 328.97
Zulu NN	2018/03/15	160 124.06	23 008.00	4 320.00	12 100.27	199 552.33
Zulu TS	2017/07/05	183 693.49	27 564.00	-	91 071.48	302 328.97
Zuma NG	2017/07/05	458 313.80	68 758.00	-	174 857.28	701 929.08
<b>Total</b>		<b>14 853 450.05</b>	<b>2 223 611.00</b>	<b>384 693.60</b>	<b>5 394 525.54</b>	<b>22 856 280.19</b>

Appointments	Date
Zulu NN	2018/03/15
Mahlangu BS	2017/08/10
Masina NA	2017/12/04
Ntsibande ME	2017/10/31

Terminations	Date	Reason
Mukhwanazi AO	2017/09/15	Resignation
Maboa-Boltman NF	2018/05/03	Resignation
Cardinal Von TD	2017/11/30	Resignation

### 31. Depreciation and amortisation

Property, plant and equipment	152 172 029	158 776 179
Intangible assets	563 448	535 433
	<b>152 735 477</b>	<b>159 311 612</b>

### 32. Impairment of assets

<b>Impairments</b>		
Property, plant and equipment	218 024	8 644 861



# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements for the year ended 30 June 2018

Figures in Rand	2018	2017
<b>33. Finance costs</b>		
Employee obligation interest	6 885 607	6 715 000
Trade and other payables	82 172 966	32 580 022
Finance leases	358 184	791 677
Current borrowings	592 791	772 950
Land fill site	2 610 672	1 776 522
	<b>92 620 220</b>	<b>42 636 171</b>
<b>34. Debt impairment</b>		
Debt impairment	209 064 564	227 097 345
<b>35. Bulk purchases</b>		
Electricity	563 400 945	578 189 444
Water	257 205 907	239 097 223
	<b>820 606 852</b>	<b>817 286 667</b>
<b>36. Contracted services</b>		
Legal services	3 677 152	8 776 844
Meter reading	17 498 154	9 769 411
Security services	20 642 018	25 935 853
Professional fees	3 043 302	11 386 087
Other contractors	36 197 430	29 756 038
	<b>81 058 056</b>	<b>85 624 233</b>

Other contractors mainly include contracted sewerage purification services, prepaid vending management as well as assessment services.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements for the year ended 30 June 2018

Figures in Rand	2018	2017
<b>37. General expenses</b>		
Advertising	677 092	14 823
Auditors remuneration	2 996 091	4 259 187
Bank charges	3 377 783	3 597 670
Cleaning	-	16 113
Consumables	15 427 738	808 576
Donations	-	57 147 850
Entertainment	15 994	136 159
Animal Costs	-	60 000
Rental: machinery & equipment	4 260 509	8 207 701
Insurance	5 635 827	2 583 788
Conferences and seminars	-	66 000
IT expenses	-	1 388 714
Fleet	-	2 446 568
Promotions and sponsorships	-	846 246
Levies	51 362	-
Magazines, books and periodicals	46 552	-
Medical expenses	-	83 340
Workshop	-	2 947 436
Investigation fees	-	1 375
Fuel and oil	4 379 913	3 156 269
Placement fees	-	67 721
Inventory losses	3 509	2 415 321
Land eviction costs	-	2 481 459
Protective clothing	707 987	1 742 010
Repairs and maintenance	27 892 513	67 588 203
Subscriptions and membership fees	2 511 159	6 874 482
Presenting costs	1 721 403	1 834 970
Transport and freight	16 109 066	12 060 772
Training	186 437	-
Travel	219 256	953 939
Rehabilitation costs	-	55 257
Inventory losses	-	593 669
TV licenses	-	28 162
Connection fees	199 467	692 968
Professional fees	5 278 790	4 044 779
Presenting costs	-	117 518
Grants expenditure	20 245 439	20 448 720
Other expenses	3 274 478	846 419
	<b>115 218 365</b>	<b>210 614 184</b>
<b>38. Fair value adjustments</b>		
Investment property	725 000	93 221 714
Other financial assets	-	(174 117)
	<b>725 000</b>	<b>93 047 597</b>
<b>39. Auditors' remuneration</b>		
Fees	2 996 091	4 259 187

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements for the year ended 30 June 2018

Figures in Rand	2018	2017
<b>40. Cash generated from operations</b>		
Deficit	(105 997 368)	(608 182 526)
<b>Adjustments for:</b>		
Depreciation and amortisation	152 735 477	159 311 612
Loss on sale of assets	18 355 451	319 571 803
Acturial gains/(losses)	-	(4 677 000)
Fair value adjustments	(725 000)	(93 047 597)
Impairment on assets	218 024	8 644 861
Debt impairment	209 064 564	227 097 345
Grants and subsidies-non cash	33 161 350	33 161 350
Other non-cash items	-	6 040 188
Donations	-	57 147 850
	<b>306 812 498</b>	<b>105 067 886</b>
<b>41. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Property, plant and equipment	68 110 563	60 166 385
<b>Total capital commitments</b>	68 110 563	60 166 385
<b>Authorised operational expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Operating contracts commitments	78 757 925	42 269 689
<b>Total commitments</b>		
<b>Total commitments</b>		
Authorised capital expenditure	68 110 563	60 166 385
Authorised operational expenditure	78 757 925	42 269 689
	<b>146 868 488</b>	<b>102 436 074</b>

Commitment prior period error

### Operational commitments

There were certain contracts still disclosed as commitments as at period ending the 30 June 2017 whereas the municipality did not have a commitment anymore. The projects for the particular contract(Sandmix,Maseko Building and G4's) were competed already in the previous financial year. The correction resulted in decrease of commitments by R 1 027 967

Interwaste contract not included in the commitments register , as a result the commitments increased with R 1 822 476

As a result prior year error commitments increased by the value of R 794 509

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements for the year ended 30 June 2018

Figures in Rand	2018	2017
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### 42. Contingencies

#### Contingent liabilities

The following legal proceedings are currently in progress and are represented by various attorneys:

##### Cronje De Waal & Skhosana

Govan Mbeki Municipality vs Piet Bok Construction cc	9 021 856	9 021 856
Govan Mbeki Municipality vs Bosch	25 781 855	25 781 855
Govan Mbeki Municipality vs NICS (Pty) Ltd	40 000 000	40 000 000
	<b>74 803 711</b>	<b>74 803 711</b>

##### Ramathe MJ Attorneys

Govan Mbeki Municipality vs CP Roers obo Snoers	-	550 000
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##### TMN Kgomo Attorneys

Govan Mbeki Municipality vs JH Odendaal	255 000	255 000
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##### Other

Govan Mbeki Municipality vs MBV Mavuso/Minor children	800 000	800 000
Govan Mbeki Municipality vs Jannie Welthagen	-	8 900
Govan Mbeki Municipality vs Marnelle Rauch	-	21 000
Govan Mbeki Municipality vs Elvis Lerato Mosele	-	2 250 000
Govan Mbeki Municipality vs Mashego Phetla	-	19 875
Govan Mbeki Municipality vs Telkom	-	90 332
Govan Mbeki Municipality vs Telkom SA	-	19 583
Govan Mbeki Municipality vs Joseph Visagie	-	135 413
Govan Mbeki Municipality vs Coleman Catharina Talita	750 000	750 000
Govan Mbeki Municipality vs Gwen Borthardt	-	7 320
Govan Mbeki Municipality vs C Venske	-	700 000
Govan Mbeki Municipality vs Johnston Ronald Graeme Murray	-	2 250 000
Govan Mbeki Municipality vs Revco (Pty)Ltd	-	443 997
Govan Mbeki Municipality vs EDSE	-	307 749
Govan Mbeki Municipality vs SMEC South Africa	-	129 964
	<b>1 550 000</b>	<b>7 934 133</b>

Total contingencies for the year	85 266 471	83 542 844
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#### Contingent assets

In addition to the court cases disclosed below, there are certain court cases which are more complex and costs cannot be determined:

##### Cronje De Waal & Skhosana Attorneys

-	2 000 000
-	2 000 000

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements for the year ended 30 June 2018

Figures in Rand	2018	2017
<b>43. Related parties</b>		
Relationships		
Duduzile Maseko - employee	Director of Lucky Jane trading and projects is a co-director in Siyaticenga ngani trading CC with Duduzile Maseko.	
Ellen Sarah Khumalo - employee	Director of Minoah Suppliers and projects is a co-director in Tsalanang investments ( PTY) LTD with Ellen Khumalo(employee)	
Sipho Fakude - employee	Director of Singemalangen Logistics cc and projects is a co-director in Nkomasefa trading and project cc with Sipho Fakude (employee).	
Nontembiso Sqoko - employee	Director of Sondie Trading enterprise and projects is a co-director in Inkhwezi primary co-operative limited Nontembiso Sqoko(employee).	
Zakhele Masilela - employee	Director of Clarabarna general trading cc is a co-director in NkoSix skipas trading and project cc with Zakhele Masilela (employee).	
Zakeu Mahlangu	Director of Ndluwakho Construction & Projects is the spouse to Cristine Mahlangu (employee ).	
Izinyosi trading	Director's wife working at provincial government civil servant	
Westvaal holding (Pty) Ltd	Director's wife working at North West University	
Members of key management	MC Morolo BJ Tsatsa BM Mhlanga MJ Mokgatsi ET Zulu ZL Mahlangu NS Wetbooi HK Sihlali ME Michele MR Mashiane MH Masia MJ Mahlangu Mothibi T Ramoleta H Gininda T Sithole BB Phungwayo T	
<b>Related party balances</b>		
<b>Loan accounts - Owing (to) by related parties</b>		
Clarabarna general trading cc	-	139 956
Sondie Trading enterprise	-	43 776
Vuma Konke Transport & Project CC	-	1 063 944
<b>Hire of plant equipment</b>		
Vuma Konke Transport and project CC	14 968 000	11 518 740
Lucky Jane Trading and Projects	-	301 644
Singamalangen Logistics CC	-	251 712
Sondie Trading Enterprise	602 148	828 504
Ndluwakho Construction & Projects	29 868	50 524

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements for the year ended 30 June 2018

Figures in Rand	2018	2017
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### 43. Related parties (continued)

#### Consumables

Clarabarna General Trading	198 520	340 982
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#### Legal services

TMN Kgomo & Associates	259 764	1 896 087
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#### Repairs and maintenance

Westvaal Holdings (Pty) Ltd	36 075	160 889
Izinyosi trading	516 883	-

### 44. Change in estimate

#### Property, plant and equipment

GRAP 17: Property, Plant and Equipment requires that the review of the remaining useful life of an item of property, plant and equipment to be conducted at least at each financial year end. Such review has been completed and the following results were achieved.

#### Change in depreciation resulting from reassessment of useful lives. The following categories are affected:

	Value derived using the original estimate	Value derived using amended estimate	R-value impact of change in estimate
Buildings	692 365	172 022	520 342
Infrastructure	2 415 380	671 960	1 743 421
Intangible Assets	1 722	204	1 517
Movables	3 006 134	1 787 979	1 218 156
Library books	19	15	4
	<b>6 115 620</b>	<b>2 632 180</b>	<b>3 483 440</b>

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements for the year ended 30 June 2018

Figures in Rand	2018	2017
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### 45. Prior period errors

#### 1. Leases

In August 2016 an IPAD was sold to councillor as per resolution A38/05/2016 and the money was subsequently deducted from his salary. The leased photocopying machine was lost during the riot in Kinross on the 31 March 2017. The loss was reported to insurance and the claim is still pending. The assets were therefore mistakenly omitted for disposals in the previous financial year. The effect of the error decrease property, plant and equipment by R 35 039, decreased depreciation by R 6 588 and Loss on disposal of assets increased by R 41 626.

#### 2. Unspent grant liability

The municipality received the grants from LG SETA for skills development, and receipts were incorrectly classified as incidental income. The receipts are therefore retrospectively classified to Unspent grant liability and will be there until used for the purpose. The effect of the error increased unspent grant liability by R 693 229, decrease VAT liability by R 85 133 and decrease the incidental income R 608 096.

#### 3. Trade and other payables

Department of Labour did not bill the municipality the levy for the past three years therefore the notice was only levied on the 1 August 2018 and with the levy payable on the 31 August 2018. The levy billed is for the period ending June 2016, June 2017 and June 2018. The effect error increased finance charges by R 186 798, increased general expenditure by R 1 926 223, decreased accumulated surplus by R 1 983 039 and increased trade and other payables by R 4 096 060.

#### 4. Investment Property

Investment Property was incorrectly sold in the previous financial year, whereas the full conditions (sale agreement signed and full payment received) for the sale was not met. The effect of the correction increased the investment property was understated with R 9 500 000, Accumulated surplus increased with R 4 818 124, Trade and other payables increased by R 581 876 and Fair value adjustment increased by R 4 100 000.

#### 5. Investment Property

Investment Property was incorrectly sold in the previous financial year, whereas the full conditions (sale agreement signed and full payment received) for the sale was not met. The effect of the correction increased the investment property was understated with R 9 500 000, Accumulated surplus increased with R 4 818 124, Trade and other payables increased by R 581 876 and Fair value adjustment increased by R 4 100 000.

#### 6. Movables

Donations to the value of R 96 601 was erroneously not recorded in the financial records on the date of the donation. As a result the correct corrections are done retrospectively. In addition there were newly found assets with the cost R 66 540. The assets were identified during the verification process and were identified to be not included in the asset register.

#### 7. Consumer debtors

Consumer accounts were incorrectly billed in previous year due to various reasons i.e. incorrect tariff charged, incorrect readings, supplementary valuations etc., the correction of the error resulted in increase in consumer debtors by R 10 980 948, increase in receivables from non exchange by R 11 523 853, increase in long term receivables by R 325, increase in property rates revenue by R 11 523 853, decrease in service charges by R 10 981 300.

### Statement of financial position

#### Non current assets

Property, plant and equipment	51 663	-
Investment property	9 460 000	-
Long term receivables	352	-
	<b>9 512 015</b>	<b>-</b>

#### Current assets

Trade receivables from exchange transactions	10 980 948	-
Receivables from non-exchange	11 523 853	-
	<b>22 504 801</b>	<b>-</b>

#### Current liabilities

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements for the year ended 30 June 2018

Figures in Rand	2018	2017
<b>45. Prior period errors (continued)</b>		
Payables from exchange transactions	(4 096 060)	-
Unspent grant liability	(693 229)	-
Payables from non-exchange transactions	(576 876)	-
VAT	85 133	-
	<b>(5 281 032)</b>	<b>-</b>
<b>Accumulated surplus</b>		
Adjustment against opening retained earnings	(2 945 092)	-
<b>Statement of financial performance</b>		
<b>Revenue</b>		
Service charges	(10 981 300)	-
Property rates	(11 523 853)	-
Fair value adjustments	(4 100 000)	-
Incidental income	160 085	-
Other income	448 030	-
Profit and loss on sale of assets	76 626	-
	<b>(25 920 412)</b>	<b>-</b>
<b>Expenditure</b>		
Depreciation	16 718	-
Finance charges	186 798	-
General expenditure	1 926 223	-
	<b>2 129 739</b>	<b>-</b>

### 46. Comparative figures

No comparative figures have been reclassified

### 47. Risk management

#### Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

#### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by council.

#### Market risk



# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements for the year ended 30 June 2018

Figures in Rand

### 47. Risk management (continued)

#### Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

### 48. Going concern

We draw attention to the fact that at 30 June 2018, the municipality had an accumulated surplus (deficit) of R 2 010 900 511 and that the municipality's total liabilities exceed its assets by R 2 010 900 511.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### 49. Unauthorised expenditure

Unauthorised expenditure	311 174 006	2 432 461
Incurred during the year	229 992 929	308 741 545
	<b>541 166 935</b>	<b>311 174 006</b>

The above unauthorised expenditure was incurred as a result of year-end accounting transactions not budgeted, bulk purchases, depreciation and impairment of assets, provision for impairment of debtors and interest charged on provision of long service awards, landfill site and employee benefit obligations.

The expenditure incurred is still to be submitted to council for consideration.

### 50. Fruitless and wasteful expenditure

Opening balance	63 359 943	30 553 483
Incurred during the year	82 172 966	32 806 460
	<b>145 532 909</b>	<b>63 359 943</b>

#### Details of fruitless and wasteful expenditure

Interest charged by Eskom	74 425 356	31 172 196
Interest charged by Rand water	7 418 284	1 129 140
Interest charged by Telkom	26 913	7 103
Interest charged by sundry creditors	302 413	84 784
Payments made for claims on contingencies	-	413 237
	<b>82 172 966</b>	<b>32 806 460</b>

Fruitless and wasteful expenditure from previous year amounting to R 30 553 483 was approved for write off by council in August 2016 as per resolution A72/08/2016. Fruitless and wasteful expenditure amounting to R 32 393 223 was approved on the 29 August 2017 as per resolution A78/08/2017 and investigated by the MPAC. Council still to consider the MPAC resolutions to the fruitless amounting R 63 359 943

No disciplinary process have been taken by the municipality due to the fact that the expenditure was incurred as a result of cash flow constraints.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements for the year ended 30 June 2018

Figures in Rand

### 51. Irregular expenditure

Opening balance	266 085 897	171 244 986
Add: Irregular Expenditure - current year	58 088 949	94 840 911
	<b>324 174 846</b>	<b>266 085 897</b>

#### Details of irregular expenditure – current year

Services received without contracts	19 471 180	28 142 148
Month-to-month contracts	14 208 252	12 255 360
Non-compliance with SCM regulations	24 409 517	54 443 401
	<b>58 088 949</b>	<b>94 840 909</b>

The municipality is investigating possible instances of irregular expenditure which has not been included in the amount disclosed above. The full extent of irregularity would only be known at the inclusion of these investigations.

Opening balance of irregular expenditure decreased by R 6 188 172, that is as a result of restatement in prior year figures.

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# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements for the year ended 30 June 2018

Figures in Rand

### 52. Professional and special services

### 53. Additional disclosure in terms of Municipal Finance Management Act

#### Material losses incurred

Opening balance	276 144 514	281 624 734
Current year subscription / fee	8 237 851	9 997 257
	<b>284 382 365</b>	<b>291 621 991</b>

#### Audit fees

Amount paid - current year	2 996 091	4 259 187
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#### VAT

VAT receivable	265 082 745	-
VAT payable	122 605 157	24 557 750
	<b>387 687 902</b>	<b>24 557 750</b>

All VAT returns have been submitted by the due date throughout the year.

#### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2018:

30 June 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Gwiji CV	6 683	923	7 606
Hlolweni S	990	9 171	10 161
Mabizela TM	5 859	20 849	26 708
Mahlangu NP	5 157	14 857	20 014
Mahlangu BD	1 628	12 478	14 106
Mbonani LM	5 956	26 393	32 349
Mkhaliphi S	4 286	15 624	19 910
Mofokeng TS	3 013	24 669	27 682
Mokoena BD	2 816	7 008	9 824
Moloto BD	2 259	77 871	80 130
Morajane TA	1 976	23 323	25 299
Motloung ME	2 750	31 022	33 772
Mtshali PD	2 975	27 212	30 187
Ndaba BB	6 396	22 047	28 443
Ndwanyaza PN	973	2 640	3 613
Njinga SC	3 525	102 301	105 826
Nkosi MJ	1 674	6 105	7 779
Nsibande ME	5 801	305	6 106
Sibanyoni SI	11 880	84 480	96 360
van Huyssteen NC	6 877	27 611	34 488
Zuma NG	7 158	4 632	11 790
	<b>90 632</b>	<b>541 521</b>	<b>632 153</b>

30 June 2017	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
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# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements for the year ended 30 June 2018

Figures in Rand

### 53. Additional disclosure in terms of Municipal Finance Management Act (continued)

Badenhorst HJ	112	733	845
De Vries GR	1 127	2 557	3 684
Fourie BJ & ME	17 180	3 210	20 390
Gwiji CV	385	494	879
Klaas B	120	364	484
Mabizela TM	2 873	9 059	11 932
Maboa NF	570	1 029	1 599
Mahlangu BD	1 067	14 921	15 988
Makhaye SA	1 927	3 909	5 836
Mazibuko KD	116	635	751
Mofokeng TS	16 504	727	17 231
Mukhwanazi AO	943	1 881	2 824
Nhlapo MD	57	697	754
Nkabinde JB	1 986	15 296	17 282
Ntuli SR	976	1 617	2 593
Sebolela JD	172	845	1 017
Vilakazi EA	908	574	1 482
	<b>47 023</b>	<b>58 548</b>	<b>105 571</b>

### Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved by the Accounting officer and noted by Council. The expenses incurred as listed hereunder have been approved by the Accounting officer .

#### Incident

Emergencies	4 589 591	53 548
Impractical to follow processes	1 467 685	1 543 702
Sole provider of goods and services	903 330	777 800
	<b>6 960 606</b>	<b>2 375 050</b>